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Ariel Re looking to raise capital to support 2023 growth opportunities

Ariel Re is in active discussions with potential capital providers in a bid to increase Funds at Lloyd's (FAL) to support growth opportunities in 2023, including in cat reinsurance at the upcoming 1 January renewal, *The Insurer* can reveal.

The **Pelican Ventures** and **JC Flowers & Co**-backed reinsurer writes business on its Lloyd's platform Syndicate 1910 and was one of the few players looking to grow at the mid-year US cat renewals.

It did so with the support of a new quota share and investment in January this year from **Berkshire Hathaway**, which it described as a "long-term cornerstone strategic partner".

The quota share, which forms part of its FAL capital stack at Lloyd's, is provided through Berkshire Hathaway's National Indemnity Company subsidiary. Continued on page 3

Gallagher Re's Kent: "An old-fashioned *Rendez-Vous*" with a focus on capacity and rate

This week's Monte Carlo *Rendez-Vous* has seen a departure from the "soft market" chatter of recent years and a return to the more pressing issues of availability and pricing of potentially scarce capacity going into 2023, according to Gallagher Re's global CEO James Kent.

Speaking at a roundtable discussion hosted by Deloitte and *The Insurer*, Kent said while demand may be up – particularly within the US – reinsurers were being cautious on property catastrophe after a high frequency of cat events and above-average losses in recent years.

"I think this year's gathering has become a slightly more old-fashioned Monte Carlo. It's been a noisy conference," Kent told the panel. "If you look at what the focus is down here, what is dominating the conversation, it's very much directly on the 1.1 renewals rather than what the future of the reinsurance sector looks like over the next two, three, four Continued on page 6

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NEWS horts

Envelop Risk launches cyber ILS practice

Bermuda-based cyber specialist Envelop Risk has launched Envelop Capital Markets with ILS specialist David Ross at the helm. The new practice will develop a market for tail risk protection, retrocession and cyber reinsurance through both indemnity, parametric and index structures. Envelop Capital Markets will underwrite transactions from Envelop's Class 3A reinsurer, Augmented Re, and structure and underwrite transactions on behalf of ILS funds.

Aon promotes Goodman

Aon has appointed Jeremy Goodman as UK president of Reinsurance Solutions, in addition to his current role as head of global broking at the reinsurance unit. He replaces Nick Frankland, who will focus on his responsibilities as chairman of Aon's new Strategy and Technology Group. Goodman will relocate from Singapore to London for the new role.

Gallagher Re hires Aon's Bowen

Gallagher Re has appointed Steve Bowen to the newly created role of chief science officer within its global analytics and advisory segment. Chicago-based Bowen has joined from Aon, where he worked for the past 15 years, most recently as managing director and head of catastrophe insight.

Perils increase Aus flood estimate to A$6.3bn

Insured losses from this year's Eastern Australia floods are now estimated to total A$6.29bn ($4.33bn), marking the event as the country's largest insured catastrophe loss, according to loss aggregator Perils. During this year's *Rendez-Vous*, Perils has also announced the extension of its coverage to include European flood.

Continued on from page 1

Ariel Re looking to raise capital to support 2023 growth opportunities

And during the Monte Carlo *Rendez-Vous* – where the expectation is that strong momentum on cat pricing especially in peak zones will continue at 1.1 – sources said that Ariel is out looking for further backing to address an increasingly attractive growth opportunity, primarily in the US market.

Details of the planned capital raise are not known, but sources said Ariel Re is one of the few reinsurers in the market looking to selectively grow its portfolio at the upcoming renewal and through 2023, when the capacity crunch in peak cat zones is likely to see an acceleration of rate increases.

In the US, Ariel Re, which is led by Ryan Mather, is thought to favour regional carriers in its portfolio.

But with estimates in some quarters that nationwide and global insurers could combine to demand up to an additional $20bn of limit to counter surging inflation, there may be other attractive opportunities.

As previously reported, Ariel Re was one of only a handful of reinsurers that looked to increase their presence at the mid-year US wind renewal, dominated by Southeast accounts and especially Florida. In Florida sources said the carrier had a strong focus on top-quartile performers in the Sunshine State, which has been blighted by several consecutive years of homeowners insurer losses in the aggregate.

It also selectively supported second-quartile companies on a renewal basis where it was able to get the right terms and conditions, including around payment terms.

As well as its support from Berkshire Hathaway, Ariel Re has accessed ILS capacity to support its cat portfolio, including the issue of the $175mn **Titania Re** just before the 1 January renewal last year.

The cat bond was structured to provide multi-year collateralised reinsurance cover to the reinsurer using an indexed industry loss trigger and protects against North American named storms and quakes.

> "Ariel Re was one of only a handful of reinsurers that looked to increase their presence at the mid-year US wind renewal, dominated by Southeast accounts and especially Florida"

It was the second cat bond issued by the company and upsized from an initial target of $150mn.

Earlier this month the reinsurer also became the first Lloyd's business to sign up to the Standards Board for Alternative Investments.

Lloyd's has established a transformer vehicle called **London Bridge Risk PCC** allowing ILS capital to come in and back syndicates as FAL.

Yesterday, this publication also revealed that Pelican Ventures is backing a dedicated new 2023 cyber syndicate at Lloyd's, **Trium Cyber**, led by former Aspen global head of cyber Josh Ladeau as chief executive and his long-time colleague Jeff Bores as chief underwriting officer and active underwriter.

Pelican Ventures is the private equity platform of **TigerRisk** founders Jim Stanard and Rod Fox.

Ariel Re did not immediately respond to a request for comment on this article.

THE INSURER

EDITORIAL
Peter Hastie
Managing director
Email: peter@wbmediagroup.com
David Bull
North American editor
Email: david@wbmediagroup.com
Scott Vincent
Managing news editor
Email: scott@wbmediagroup.com
Michael Loney
North American associate editor
Email: michael@wbmediagroup.com
Christopher Munro
North American associate editor
Email: christopher@wbmediagroup.com
James Thaler
Head of Americas news content
Email: james.thaler@wbmediagroup.com
Rebecca Hancock
Head of exclusive content
Email: rebecca@wbmediagroup.com
Ryan Hewlett
Deputy News editor
Email: ryan.hewlett@wbmediagroup.com
Sophie Roberts
Content editor
Email: sophie@wbmediagroup.com
David Freitas
Associate content editor
Email: david.freitas@wbmediagroup.com
Rebecca Delaney
Reporter
Email: rebecca.delaney@wbmediagroup.com
Carlos Pallordet
Head of product and data
Email: carlos@wbmediagroup.com

ADVERTISING, MARKETING AND SPONSORSHIP
Spencer Halladey
Commercial director
Email: spencer@wbmediagroup.com
Andy Stone
Sales manager
Email: andy@wbmediagroup.com
Abby Baker
Subscriptions manager
Email: abby@wbmediagroup.com
Beatrice Boico
Marketing manager
Email: beatrice@wbmediagroup.com
Teresa Reister
Senior marketing executive
Email: Teresa@wbmediagroup.com

PRODUCTION
Paul Sargent
Creative director
Email: paul@wbmediagroup.com
Ewan Harwood
Production editor
Email: ewan@wbmediagroup.com
Kevin Freeman
Head of solutions
Email: kevin@wbmediagroup.com
Tim Riddell
Finance director

Info email: info@wbmediagroup.com
Published by World Business Media Ltd

Inside this edition

Viewpoints

Brokers tested as inflation fuels demand for higher limits despite cat caution

If there was a sentence least likely to be uttered by an underwriter at *Rendez-Vous* of the past decade then it was probably: "I do feel sorry for those overworked reinsurance brokers."

But there is one cast-iron takeaway from this year's Monte Carlo: cat/all-risk treaty brokers are going to be working over-time in Q4 to complete their clients' programs at 1.1. The problem is likely to be most acute in the US, the world's largest reinsurance market. As a rule of thumb, the US property cat treaty market is in the region of ~$200bn of limit.

At mid-year, the squeeze in cat appetites and rate increases saw 1.6 placements struggle before the near implosion of the dysfunctional Florida market.

Spiralling inflation will mean most cedants will need to buy at least 10 percent more limit just to stand still.

The imperative to buy will be different depending on the buyer. But for some insurers, rating agency models may mean the full additional limit will need to be bought to maintain BCAR levels.

With the impact of inflation this year so far not having been priced into 1 January 2022 renewals, some sources have suggested pricing will have to reflect a "make-up" rate for the missed inflation, as well as factoring in forecasts for 2023.

Some reinsurers have suggested rate increases of 15 percent would only leave them in the same position as before on margins, without adjusting for the risk associated with uncertainty around secondary perils that they argue also needs to be reflected at 1.1.

That could mean expectations of increases of 20 percent or more before any potential major cat activity during the remainder of the year. That eventuality could "break the market", as one reinsurer CEO put it.

It's a given that rates will go up – regardless of whether the wind decides to make a late blow – but even at higher prices the distinct shortage of additional cat appetite to match demand means that getting renewals home will require a significant effort.

The acid test will be 1.1, when a significant number of large US nationwide (and of course global and European) treaties are renewed. All else being equal, reinsurance brokers might need to find as much as $20bn of additional limit for US clients alone.

Anecdotal evidence points to Allstate and State Farm looking to buy at least $1bn of additional limit apiece, while other major US-based carriers including Liberty Mutual are also thought to have communicated their need to buy significantly more protection at upcoming renewals.

But, if anything, rather than rise to the challenge, cat reinsurers have stopped pedalling and in some cases have put the brakes on or left their bikes on the side of the road.

Axis Re has exited altogether, while Markel closed down its reinsurance underwriting unit and instead transferred part of the portfolio to its ILS manager Nephila. Axa XL meaningfully cut back, as did Scor and TransRe – although those reinsurers have all stated their commitment to put down meaningful cat capacity within the redefined appetites.

Where there is enthusiasm it is so far relatively muted. As we report on page 6, speaking at a roundtable hosted by this publication in the principality, Swiss Re's CUO Thierry Léger struck a cautious tone. Some Lloyd's insurers – including Ariel Re (see page 1) – appear to be "leaning in", as are a few other markets such as PartnerRe and Aspen Re in a moderate fashion. But caution reigns supreme.

Nor are there obvious signs of a fresh wave of new capacity start-ups other than a few isolated projects (see our article yesterday regarding former Everest Re reinsurance CEO John Doucette, which anyway is not thought to be centred on cat). Investors are also cautious.

So, this is the challenge that reinsurance brokers will be set by their clients. In the US, the placements of the large nationwide accounts are dominated by the "big two" Aon and Guy Carpenter.

Aon's reinsurance head Andy Marcell acknowledges the task that market conditions have created. Arriving at the *Rendez-Vous*, he told this publication that part of a successful intermediary's job was to "create capacity for our clients". The optimistic view has to be that more capital will be allocated as we edge closer to 1.1. But it's going to be a tough one and with it – one imagines – there will be programs where not all layers are fully placed at 1.1. It feels a very different market to the one that dominated discussions at the last *Rendez-Vous* three years ago.

Safe travels home to all delegates and we hope to see you all next year...

Reinsurers 2022/3 cat appetites...*

Reduced/exit

- AXIS
- MARKEL (shifting cat business to Nephila)
- AXA XL Insurance Reinsurance (down 40%)
- TransRe (down 25%)
- SCOR (down 21%)

Cautious increase

- VALIDUS RE
- PartnerRe
- Ariel Re
- Aspen

Moody's, or as outlined in H2 earnings or public comments at Monte Carlo *Rendez-Vous*

David Bull
North American editor

CCR Re commits to renewal of pioneering 157 Re sidecar

Paris-headquartered CCR Re, the open market reinsurance arm of French state-owned carrier CCR, plans to renew its pioneering 157 Re sidecar at 1 January with further renewals expected in both 2024 and 2025.

157 Re, a pioneering onshore French reinsurance securitisation that first rolled off the production line on 1 April 2019, will renew at 1.1, timed with the placement of the state-owned reinsurer's annual retro program.

The planned 2023 renewal comes after CCR Re renewed the collateralised reinsurance sidecar in January, a move that marked the fourth annual issuance of the sidecar since its launch.

The sidecar, which writes a 25 percent quota share of CCR Re's global property cat book, takes the form of a mutual securitisation fund (fonds commun de titrisation), a structure that was previously only used for asset securitisation.

Speaking on the sidelines of the *Rendez-Vous* in Monte Carlo, Mathieu Halm, head of retrocession and strategy at CCR Re, said the securitisation continues to attract strong investor demand, noting that the main covered exposure is European wind, which some investors see as a diversifier.

While Halm would not be drawn on the performance of the sidecar in 2021, the executive said CCR Re was pleased with the "success" of the transaction and pointed to positive feedback from both its domestic French regulatory authorities and from investors. Halm explained that 157 Re's current structure differs from the original 2019 issuance and offers the reinsurer greater flexibility, including "compartments" – similar to protected cell structures seen in existing offshore ILS/risk transfer transactions – which enable multiple ring-fenced securitisations to take place using the same platform.

Through these "compartments" the 157 Re platform – named after the building number of CCR's Paris headquarters – can also be easily adapted to issue a catastrophe bond or industry loss warranty, depending on CCR Re's appetite, he said.

Gallagher Re's Kent: "An old-fashioned *Rendez-Vous*" with a focus on capacity and rate

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years as would have been the case a few years ago."

He continued: "It's all about what's going to happen at 1.1 and none of us quite know what the outcome is. We're still deep into the Atlantic hurricane season and the market is unanimously saying that we do not need a big event to determine what happens at renewal but generally market sentiment has consensus that there are headwinds in property and specialty lines."

Also speaking at the event, Axis Re CEO Ann Haugh said there was a general feeling of "optimism" heading into 1 January, noting that while the reinsurance market has improved both in terms of underwriting results and in returns on capital, it was "still playing catch-up" where rates are concerned.

Like Kent, Haugh flagged property catastrophe as a line which some cedants may find challenging at 1 January following the exit or partial withdrawal of a number of carriers from the space in 2021 and 2022. This included her own firm Axis Capital, while a number of other carriers are leaning into the strong pricing environment and deploying more capital on property catastrophe reinsurance.

"The headwinds, the exposures, are increasing and the complexities of these exposures are increasing. We're also facing pronounced geopolitical pressure, and are navigating all kinds of inflation. I think it's very specific to each line of business as to how the market is reacting," Haugh explained.

"I would call it firming in many lines and I think that we [reinsurers] are optimistic going into 1.1. There's still a lot of capital in the market and deals still get done, property will be a bit tougher than others, but we're seeing that reinsurers all have different strategies in terms of how they're deploying the capital. There's not a one-size-fits-all approach to this renewal." This view was echoed by Thierry Léger, group chief underwriting officer at Swiss Re, who added that while it was clear the demand for reinsurance capacity was up, many reinsurance strategies remain "undecided" with volatility set to continue heading into the renewal.

"It will depend very much on the price and terms offered. This is a very open market as we go into 1.1," he told the panel. "Where we are now is ok, but much more needs to happen between now and 1 January for the undecided to move to the decided side and provide the capacity the market requires.

Deloitte's global specialty and reinsurance leader Guru Johal said there was a need to look beyond the next few months to "widen our horizon" and for market participants to consider the trends influencing their business in the medium to long term to ensure they are prepared to meet the upcoming opportunities and challenges.

"This is also an opportunity to look at how the industry adapts to prepare for the medium term given the outlook. It is about being clear about what the focus is going to be for each participant in the value chain," he explained.

"It is being specific about what is going to give you the competitive edge? It is understanding how to best access your customers, understand their needs and provide the right solutions; being able to analyse the risks as well as understand the impact on your portfolio; and ensuring that you have the right type of capital to meet your return requirements. How you best combine talent and technology to enable this will be a differentiator."

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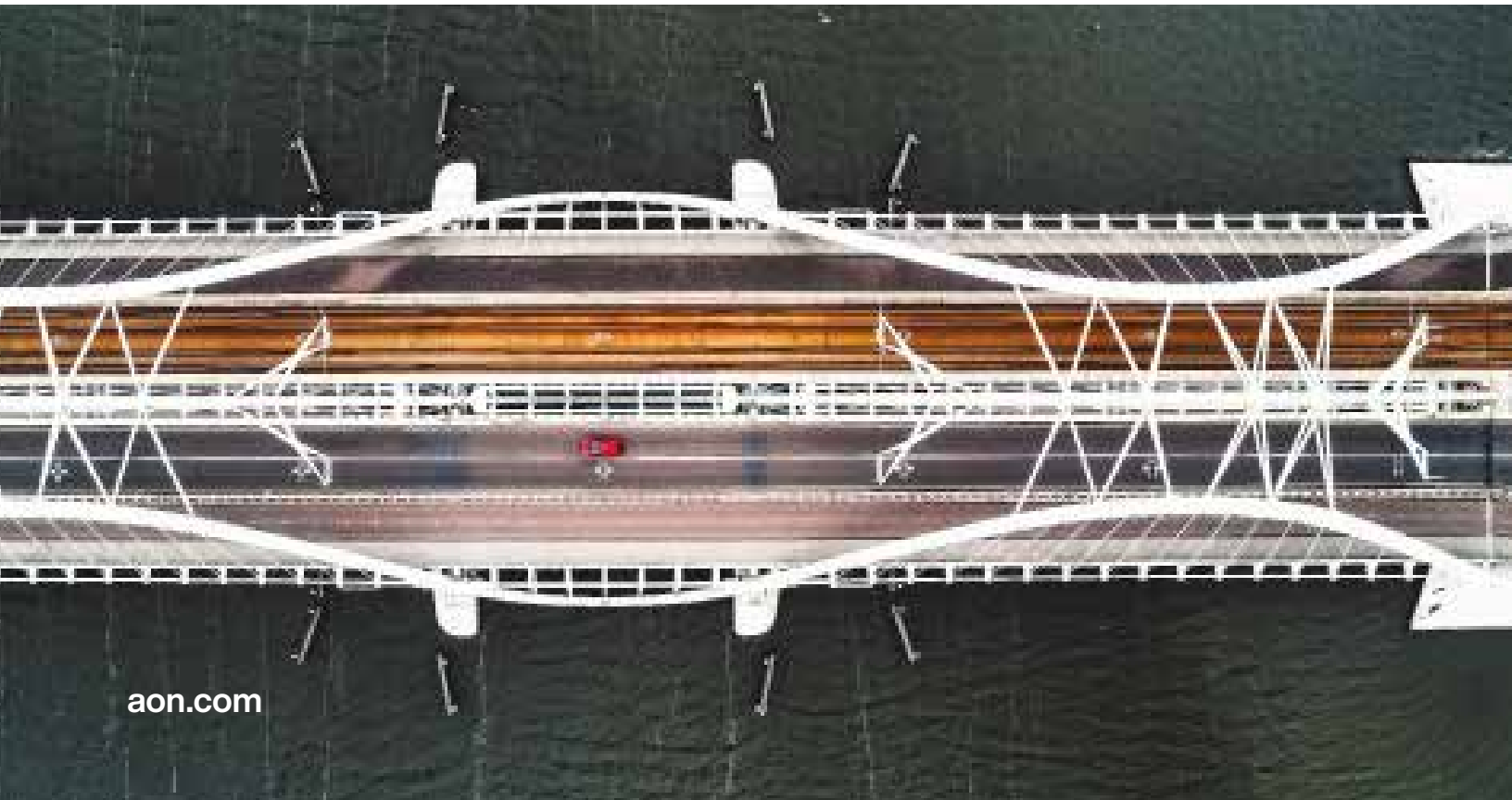

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Howden Tiger to maintain recruitment drive as it cements top four position

The combined Howden Tiger will keep recruiting post-completion as it seeks to further cement its top four reinsurance broking position, according to Howden RE CEO Bradley Maltese.

Speaking to *The Insurer* at this year's *Rendez-Vous* in Monte Carlo, Maltese said the combined entity will be a "very attractive home" for top talent, with Howden RE having already added close to 100 people over the past year.

"It's been incredible the amount of people who want to join us," Maltese said.

Around 60 of this year's additions have been treaty hires, with the remainder split between fac and MGA appointments.

The deal for Howden to acquire TigerRIsk was announced in June and Maltese said it is on course to complete in January.

"When people start to see the talent pool we are building and the investment we are putting in, we become a very attractive opportunity," he said.

Recent additions to Howden RE include three senior hires from Aon Reinsurance Solutions' Netherlands unit, a move revealed by *The Insurer* last week.

Maltese is among the additions to Howden this year, having joined the company on 1 April to take the helm of the group's reinsurance arm.

He previously served as Guy Carpenter's vice chairman, global specialties, having joined the Marsh McLennan-owned reinsurance broker through its 2019 acquisition of JLT.

Busiest Monte Carlo

Maltese described this year's Rendez-Vous as the busiest Monte Carlo he has ever had.

"And I've been coming for 27 years," he said. "But we have a good story to tell."

He highlighted the complementary nature of the TigerRisk transaction with a relative lack of integration required compared with other major M&A deals.

"In London, we didn't have a political risk and trade credit team, but Tiger does. Similarly, we were more D&F-focused, while they were more retro. And our casualty teams had different areas of focus," he explained.

Part of the story to tell at this year's event has been the unveiling of a new unit, SabRE, which will formally go live once the combination completes.

SabRE will combine the specialist coverholder teams of Howden RE, TigerRisk and Howden's delegated binding authority business Bowood, and says it will be the industry's largest dedicated global MGA/program reinsurance intermediary, advising on the placement and structuring of $6bn of gross written premium.

"The MGA business is a huge platform for us," Maltese said.

Tough renewal season

He acknowledged that 1 January will be a tough renewal season for buyers.

"Whether we see activity in the wind season or not, there will be pressure," he said. "Some specialty lines have been hit for the first time in years."

He highlighted that the first half of 2022 had seen the first reduction in reinsurance capital for several years.

"It's a tough 1.1 coming up. Having the blend of talent, history and relationships will be vital to get through it."

Howden Tiger: "New kid on the block" aims to bring energy to the market

Howden Group founder David Howden provided a bullish outlook on his company's growth prospects in the reinsurance market as he met with *The Insurer* TV at his first ever Monte Carlo *Rendez-Vous*.

Howden said the response to the group's planned combination with TigerRisk, announced in June this year, had been positive in discussions with both existing and potential clients in recent days.

"What we present is a business that is different to the three big brokers, where it has previously been a merry-go-round of where people can go.

"Now there is a new kid on the block – it is growing very fast and owned by people working in the business.

"We're still waiting for regulatory approval so there's only so much we can do, but we've been really active in working out how the businesses will work together and getting the structure right," he added.

Rod Fox, TigerRisk's founder and executive chairman, said integration planning between the two companies is well under way.

"One of the beautiful things about this deal is they're so complementary, that it's really about how we go forward together, and not what we have to fix or break up or anything like that," he said.

"There's a lot of work going on within the confines of what we can do, but also getting to understand each other's businesses even better, have the people meet each other, and look at what the integration plans are going to be. The general word seems to be excitement," he added.

Watch the headline interview with David Howden and Rod Fox discussing their landmark merger, filmed in *The Insurer* TV's Hôtel de Paris pop-up studio suite. Listen for more on:

- **Howden Tiger – a cultural fit**
- **Co-broking and integration plans**
- **Creating the fourth biggest broker**

Pelican Ventures backs new Lloyd's cyber start-up Trium 1322

Lloyd's has granted in-principle approval for a new Asta-managed, cyber-focused syndicate – Trium – with the Pelican Ventures-backed vehicle set to commence underwriting in January 2023, *The Insurer* revealed yesterday.

Syndicate 1322 will be led by former Aspen global head of cyber Josh Ladeau as CEO, with his former colleague Jeff Bores named chief underwriting officer and active underwriter.

It is expected to commence underwriting in January 2023.

Trium expects to write $50mn of gross written premiums (GWP) during its first year of operation.

Alongside cyber coverage, Trium will also provide complementary risk management advisory services and customised real-time loss mitigation services to drive rapid claims decisions and favourable loss outcomes and support its growth aspirations.

Pelican Ventures is the venture capital firm set up by industry veteran Jim Stanard and TigerRisk founder Rod Fox, with other executives involved including TigerRisk CEO Rob Bredahl, Bob Deutsch as chairman and Win Hotchkiss as managing director.

Trium marks Pelican Ventures' latest move on Lime Street. The private equity firm along with JC Flowers acquired Bermudian short-tail specialist Ariel Re from Argo Group in November 2020, with the deal seeing Syndicate 1910 come under its control. It is thought to be separately examining capital-raising plans to expand Ariel Re's cat firepower in 2023.

At the same time the deal completed Pelican Ventures entered into an "operational partnership" with Apollo Syndicate Management which saw Ariel Re become the managing agency's largest capital provider.

The arrangement saw Ariel Re provide operational support and distribution for Apollo's property catastrophe reinsurance-focused Special Purpose Arrangement (SPA) 6133.

The in-principle approval from Lloyd's for Trium comes as the leadership team at One Lime Street have spoken publicly of its willingness to embrace primary cyber business as the class continues to experience rate rises following a period of strained profitability and accumulation concerns.

In its H1 results last week Lloyd's singled out cyber as a strong contributor to the surge in GWP, which came from 7.7 percent rate, 4.7 percent volume growth and 5.0 percent due to currency effects. The fast-expanding market is estimated to be edging ever closer to $10bn in global GWP.

Catalina given in-principle approval for Lloyd's RITC syndicate

Bermuda-based legacy specialist Catalina has received in-principle approval to launch a new Lloyd's syndicate to underwrite reinsurance-to-close (RITC) transactions.

Catalina Syndicate 3232 will be managed by Asta and is aiming to commence accepting business in the 2023 year of account, the company said.

The syndicate will be capitalised through a wholly aligned corporate member owned by Catalina. The legacy specialist said the syndicate's strategy will be to target larger-sized transactions.

Acrisure given go-ahead for Lloyd's syndicate Flux

Acrisure has received in-principle approval from Lloyd's to launch a new syndicate to start underwriting 1 January 2023.

Managed by Asta, Syndicate 1985 is expected to generate gross written premiums of ~£105mn in its first year of underwriting.

The Acrisure syndicate will be used to back its own MGAs and write business channelled via its retail network. Around two thirds of the business will be new to the Lloyd's market.

Swiss Re: Reinsurance will be instrumental in de-risking new investments

Reinsurance will play a "significant role" in how people de-risk new investments within a multi-polar world that is increasingly influenced by macroeconomic conditions, said Moses Ojeisekhoba, Swiss Re's CEO of reinsurance, at this year's *Rendez-Vous* in Monte Carlo.

With the increasingly uncertain environment driving greater demand for reinsurance, Ojeisekhoba added: "From my perspective, this is a role that a company like Swiss Re and the industry must continue to fulfil."

And with social and economic inflation hitting the insurance industry simultaneously, it is important to have realistic expectations of claims inflation and risk-adjusted pricing, Swiss Re said.

Ojeisekhoba noted that specialty markets will continue to grow, driven by increasing demand, with infrastructure investments presenting significant growth opportunities.

The Russia-Ukraine conflict highlighted accumulation risk in aviation, marine and credit and surety lines, he said, while the accelerated energy transition requires risk knowledge for renewables, as well as significant investment.

Social inflation is also impacting casualty, outlined Ojeisekhoba. With a "clear indication" that costs from casualty are increasing, the environment requires disciplined underwriting and tailored reinsurance structure offerings to cover social inflation trends.

Elsewhere, supply chain disruption and other structural issues are leading to a claims surge in business interruption (BI) covers.

Swiss Re noted that many industries observe a strong increase of their gross margin in sectors where shortage and inflation are high, leading to compressed insured limits.

Therefore, the reinsurer highlighted the importance of including supply chain exposure in risk selection, pricing and coverage terms of property damage, BI and contingent BI covers.

Also speaking at the *Rendez-Vous*, Thierry Léger, group chief underwriting officer at Swiss Re, noted that nat cat losses have been driven by rapid urbanisation, wealth accumulation and climate change.

With nat cat claims continuously growing at a compound annual growth rate between 5 and 7 percent, he described the industry has been in "catch-up mode" since 2017, with a distinct lack of modelling for secondary perils, as well as exposure data gaps and overly optimistic loss experience observation windows.

> "While the world in which we live today is uncertain, from our standpoint it is important for us to continue to partner with our clients in a way that is mutually beneficial"
>
> **Moses Ojeisekhoba, Swiss Re's CEO of reinsurance**

However, Léger added that the industry is on the road to more sustainable reinsurance, with moves to elevate secondary perils to primary perils, and improvements to exposure data availability and modelling to reflect the newest risk growth trends.

Discussing the reinsurer's nat cat business, Ojeisekhoba noted the importance of accurate pricing and risk selection as demand grows.

He added that Swiss Re does not intend to change its appetite for nat cat exposure, instead stating that focus will continue to grow.

For cyber, Léger noted that owing to the rise in technology, intangible assets and digital services, risk concentration continues to grow, warranting a conservative view on tail-risk.

As cyber premium levels still do not cover catastrophe-type events, capacity increasingly becomes a limiting factor for demand, said Swiss Re.

The reinsurer suggested that by 2040, cyber premium could represent the same level of premium as property.

As in nat cat, he said the business will be able to learn from past losses to improve reference data and adjust models and prices – and better data and improved models are certainly required to increase the amount of capacity offered by the insurance industry.

"While the world in which we live today is uncertain, there are complexities and challenges, at the end of the day from our standpoint it is important for us to continue to partner with our clients in a way that is mutually beneficial," Ojeisekhoba concluded.

Reinsurers "had enough" of more risk for less reward: Ursano

The reinsurance industry is increasingly united behind the belief that it has been taking increasing risk for inadequate rates, and instead needs to be paid for the risk it assumes, Tony Ursano has said.

Ursano has been taking the temperature of discussions in Monte Carlo this year, revealing the industry's frustrations in an interview with *The Insurer* TV at the event.

"I think, to some extent, the industry and its capital providers may have had enough," said industry veteran Ursano, who is managing partner and co-founder of newly launched M&A capital advisory specialist Insurance Advisory Partners LLC.

A rising hard market tide will benefit the whole sector, Ursano suggested.

"It's a terrific dynamic that the industry is seeing a hardening in terms of pricing and terms and conditions. More needs to happen, but it's a good dynamic for an industry that frankly has charged too little for such a valuable product for so long," he added.

To make matters worse for reinsurers in recent years, the world has only got riskier, stressed Ursano.

A cocktail of threats besetting reinsurers were listed by Ursano, including the pandemic, rising inflation, climate change, political and economic uncertainty, declining bond yields, emerging and systemic risks, as well as future black swans.

"There is a growing consensus, acknowledgement and resolve around the fact that the world is becoming a riskier place, and that the industry, which provides an invaluable societal benefit through ensuring resiliency, needs to get paid for the risk it assumes."

Ursano cited a report from McKinsey, published in February, which stated that insurance is a value-destroying industry, with around half of listed insurance companies across the world consistently trading below their book value over the past five years, "an embarrassing statistic", he said.

"There is a real sense that the industry needs to get paid for the risk it assumes," he said. "It's further accentuated by the fact that for a long period of time, the industry has been earning a return on capital less than its cost of capital."

The launch of his new advisory business comes in a year that has seen major mergers, such as the Howden-TigerRisk deal on the reinsurance broking side, and Berkshire Hathaway's takeover of Alleghany on the underwriting side.

"There's been a whole series of transactions, which is a continuation of the theme for the rest of this year, because insurance M&A, and M&A in general, has a long lead time. I think about it as a continuation over the next 12 months," he said.

While at the *Rendez-Vous*, Insurance Advisory Partners has announced fresh appointments of its own. The start-up has brought in Robin Mackie as senior advisor in London and Samantha Hagar as an associate in New York.

Mackie brings experience in investment banking, insurance, venture capital and private equity. Hagar joins from PNC Capital Markets, where she was an associate director in the insurance division of its financial institutions team.

Macroeconomic factors

Macroeconomic factors, such as inflation and broader economic uncertainty, will have "a dampening effect on valuations" for upcoming M&A deals, Ursano acknowledged, keeping corporate shopping sprees within rational budgets.

"This is an environment where it's unlikely that we see someone be irrationally exuberant, and where the 'dare-to-be-great' speech is not going to resonate particularly well. I don't think it's going to interfere with valuations, but I think it's going to keep a lid on rational valuations in the consolidation arena," he said.

None of this will keep firms from buying each other, he emphasised, and the merger outlook looks particularly busy for insurance services firms, Ursano reckons, thanks to the sector's sound business model throughout the market cycle and "endless" private equity suitors.

"It's a big focus for us," he said. "The reason for sustained interest at record high multiples is simple. You've got fee-based businesses which are not capital-intensive and which are highly cash-generative. You've got businesses that have a recurring revenue model, where you might have 80-90-95 percent retention rates."

Insurtech mergers are on the horizon, too, he suggested.

"On the insurtech side, you're seeing the availability of their venture capital dry up and therefore a pivot towards M&A," Ursano said. "It's a continuation of the same consolidation theme that has been going on in this industry for the last five years."

Watch the full interview with industry veteran Tony Ursano, speaking to *The Insurer* TV from its Monte Carlo pop-up studio suite, for more on:

- **The hard market**
- **Ursano's M&A projection**
- **Insurtechs turn to M&A**

Aon's Schultz: Cyber ILS edging closer amid rising investor interest

Positive discussions with would-be investors suggest the first cyber ILS transaction could arrive in 2023, according to Paul Schultz, CEO of Aon Securities.

Speaking on a panel debate hosted by *The Insurer* TV at the Monte Carlo *Rendez-Vous* as part of its Casino Square Sessions, Schultz said cyber is likely to attract a different set of institutional investors than previous ILS transactions.

"We think we're close," he said. "We think there's probably 12 to 15 [institutional investors] that will look at cyber. I know we've said this for a while, but we think we're close to getting cyber launched into the ILS marketplace.

"On the long-tail or other perils, there are other types of investors that value longer duration liability, because they like the longer duration assets under it," he said.

However, Tony Rettino, founding partner and senior portfolio manager at Elementum Advisors, said there remain concerns around longer-tail risks and in particular, cyber.

"Cyber is clearly a big enough market, and it's capacity constrained, so there should be solutions. But our concerns are that we're not sure that the risk has yet stabilised, and we're not sure that the risk has been defined well enough," he said.

Rettino said with cyber risks changing fast and models still embryonic, he thought it would take a large loss or two for the market to redefine contract terms and get a firm grip on the risks involved. However, he noted that others may be keener to grab an opportunity first.

"We think cyber risk is evolving faster than the market can capture it right now," he added.

While discussing appetite for longer-tail risks more broadly, Eveline Takken-Somers, senior investment manager at pension fund manager PGGM, said that most pension funds are not looking to add additional ILS allocations.

"From my perspective, some investors are, and some are not. Our board is not and they are very clear about that," she said.

> We're going to see greater demand from cedants looking to transfer risk into the cat bond market
>
> **Paul Schultz, CEO, Aon Securities**

"It's relatively complex compared to other asset classes in which pension funds invest. That increase in complexity is definitely not what they were looking for," Takken-Somers said.

"Also, [the board] questions how sustainably we could run through those other business lines, and they always care about a fair, fair cost," she added. "So I think those were concerns that we could not address right now. In addition, given the fact that we're a pretty large pension fund, we need big lines, or a sizeable enough asset class in order to make it attractive, otherwise, we spend a lot of time on something that's kind of relatively small."

Cat bond momentum

The panel was bullish about broader ILS growth following a strong year for cat bonds.

In its latest catastrophe bond market report, Aon reported that cat bond issuance reached near-record issuance levels of $12bn from 1 July last year to 30 June this year. The record level of $13bn was reached in the prior year.

"It's very possible we'll set new records this year. If not, it will be comparable to last year," Schultz said. "We anticipate a very busy remainder of 2022.

"We're going to see greater demand from cedants looking to transfer risk into the cat bond market. We anticipate elevated issuance going into the end of the year compared to normal levels, and we expect that to continue in 2023," he said.

"We think capacity will be there. If not then we're going to see a supply-demand imbalance, which will lead to more uncertainty in the market, but from where we sit today we're optimistic," he said.

Watch the full ILS debate on *The Insurer* TV, recorded from our pop-up studio at Monte Carlo's iconic Hôtel de Paris. Hear from Aon's Paul Schultz, Elementum's Tony Rettino and PGGM's Eveline Takken-Somers on:

- **The current state of the ILS market**
- **Supply/demand dynamics**
- **Cat bond issuance setting new records**
- **Investor interest in long-tail lines, including cyber**
- **The inflationary threat to claims severity**

INNOVATION

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Cyber risk evolution

Guy Carpenter's Anthony Cordonnier and Erica Davis examine the rapid evolution of the cyber market

Cyber risk is evolving at an explosive rate, creating one of the most dynamic perils in the industry. In turn, (re)insurers are now presented with a breadth of opportunities, challenges and threats.

How we got here

As the economy continues to digitise, the door to the possibility of ransomware attacks opens further, emboldening existing threat-actor groups and attracting new ones. The strong uptick in ransomware attacks from 2019 onwards resulted in a surge in product demand. Meanwhile, the threat landscape has shifted from the monetisation of private information to ransom demands and the disruption of critical infrastructure. Concurrently, penalties for non-compliance of privacy regulations are becoming more costly.

Where are we now

Guy Carpenter estimates 2021 year-end cyber/blended (errors and omissions cyber) premium at $10bn globally, with an expectation that it will reach $20bn by 2025. Cyber risk provides new avenues for insurers looking to explore alternative growth strategies, and this has led to a significant influx of new market entrants.

A maturing market

The industry has acknowledged the need for increased sophistication in underwriting practices. This includes a heightened technical acumen and controls-based approach, as well as reducing limit profiles to help manage overall exposures, and year-round policyholder engagements.

Pricing strategies have also shifted, with Marsh US reporting a full-year 2021 rate increase of 79.2 percent. Pricing in the international cyber insurance market has also continued to be challenging. The UK cyber rate of increase reached 68 percent in the second quarter of 2022, significantly moderated compared to 102 percent in the first quarter of 2022, while Continental Europe cyber insurance pricing spiked by 50 percent compared to 80 percent for the same period.

Anthony Cordonnier, Global co-head of cyber, London, Guy Carpenter
Erica Davis, global co-head of cyber, New York, Guy Carpenter

Reinsurance perspective

Over the last seven years, the cyber insurance market has averaged 30 percent year-on-year growth, with approximately 40 percent of the premium flowing to reinsurers. This increased demand has led to a heightened reliance on existing cyber reinsurance writers and created the need for new capacity, which is driving interest in alternative sources of capital. This dynamic also intensified the use of cyber analytics in reinsurance structure design, as well as igniting the need for alternative risk transfer methods such as cyber industry loss warranties, catastrophe bonds and event covers.

There are a number of actions cedants can take to secure capacity in this competitive environment:

- Invest in underwriting technology and cybersecurity offerings;
- Develop a risk tolerance strategy that is in line with changing loss vectors;
- Implement clear strategies with conviction in data, market landscape forecasts and underwriting acumen;
- Optimise available capital by partnering with a specialised cyber reinsurance broker.

Where Guy Carpenter can take you

Guy Carpenter's global cyber practice provides our clients with industry-leading cyber risk insights, peer benchmarking and superior reinsurance execution. By leveraging our development and implementation of unique proprietary tools, a cross-functional analytics team embedded within the broader Marsh McLennan organisation and our dedicated global cyber broking team, we are able to balance structural innovation with minimised basis risk. This supports our clients in growing their profitability in this emerging risk arena.

Four consumer trends shaping the future of commercial insurance

EY's Chris Raimondo highlights the four major forces reshaping the P&C marketplace

Consumer trends have a way of reaching B2B markets faster than many industry observers expect. That's why senior insurance executives focused on the large commercial and reinsurance markets would do well to keep an eye on how changing customer expectations are reshaping personal lines.

Consider the rise of embedded insurance. What started with protections for travel and consumer electronics has expanded to include many bigger-ticket items.

Prominent automotive manufacturers now offer insurance to consumers at the point of sale and are looking to add other protection-related services.

Such offerings will become more popular as mobility-as-a-service subscriptions and self-driving vehicles become the norm. Embedded fleet insurance policies are the logical next step for manufacturers.

EY's recent NextWave Insurance Consumer and Small Business research highlights the major forces and megatrends reshaping the P&C market, as well as highlighting the next generation of customers. Those forces include:

- **The consumer revolution:** demand for hyper-personalised policies and protections to meet unique individual and situational needs has increased dramatically.
- **The emergence of real-time risk protection:** AI, machine learning, automation, digital platforms and data analytics enable insurers to deliver flexible services instantaneously and at scale.
- **The rise of ecosystems:** as industry lines blur and barriers to entry fall, insurance becomes ubiquitous for all types of purchases; insurers will orchestrate their own ecosystems and embed in those led by others.
- **New risks necessitating new products:** evolving societal norms and cultural values – from climate risks to personal data ownership to virtual worlds – spur new risks and invite product innovation.

Ongoing disruptions from emerging tech, proliferating data, new competitors and regulatory changes underpin these profound shifts. Parallel forces are at play in commercial lines. Consider how more corporate customers are looking for flexible policies that can be adjusted quickly as risks change, which requires the development of dynamic underwriting and pricing capabilities.

> "We believe innovators in both large commercial insurance and reinsurance markets are poised to unleash an era of impressive growth"

Certainly commercial carriers are encountering non-traditional competitors, including captives, MGAs and even ambitious brokers. Insurtechs and big tech platforms that gain traction in personal lines might find commercial markets appealing.

Personal lines carriers are also examining opportunities in commercial lines as their traditional business faces new threats, including OEMs launching insurance companies and increased adoption of autonomous vehicles. Forward-looking executives are beginning to explore the implications of personal auto policies morphing into product liability coverage.

We believe innovators in both large commercial insurance and reinsurance markets are poised to unleash an era of impressive growth. Firms that upgrade their value propositions, build collaborative cultures and fully digitise their operations for broader connectivity will be best positioned to win.

To learn more, read EY's latest NextWave Insurance research at ey.com/nextwaveinsurance.

Chris Raimondo is EY Americas insurance technology consulting leader

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Bonneau: PartnerRe will deploy property capacity strategically at 1.1

PartnerRe will present a business plan to its board later this month that will budget for a modest increase in cat capacity, which the reinsurer will deploy strategically along with its cyber capacity first to cedants where it can access other business it finds attractive, CEO Jacques Bonneau told *The Insurer*.

And the reinsurer is also looking to harness more capacity through its $1.1bn third-party capital platform, as it holds conversations with potential investors, including a number introduced through Covéa relationships.

The executive was speaking to this publication at the Monte Carlo *Rendez-Vous* in a joint interview with PartnerRe chairman and Covéa CEO Thierry Derez only two months after the French mutual's €7.9bn deal to buy the Bermudian reinsurer closed.

And in a wide-ranging interview the duo discussed the rationale behind the transaction and how PartnerRe, as part of a group with a larger balance sheet, will address the upcoming 1 January renewals in a fast-transitioning market.

Derez described the acquisition of PartnerRe as "strategic" for the French mutual.

"We think that together we can offer global diversification and reinsurance expertise which is very important for the future," he said.

He said that reinsurance companies had a role to play in addressing global issues such as climate change.

Talking Points

- **Derez says PartnerRe will offer global diversification and reinsurance expertise to Covéa**
- **New ownership brings long-term ownership to PartnerRe and the possibility of a rating upgrade**
- **PartnerRe will strategically deploy cat and cyber capacity to cedants where it can access other business it finds attractive**

Addressing client needs

"We believe that by putting Covéa and PartnerRe in the same group, we will be able to better respond to the issues that most concern our clients. The challenge is not only about climate change, but how to stay ahead of radically changing risks today and for years and years to come.

"To have the expertise of a global company like PartnerRe is crucial to us. PartnerRe is a very strong franchise and of course we will maintain the name of the franchise," he said.

Meanwhile, Bonneau highlighted the benefits to PartnerRe of having a long-term mutual company owner in Covéa that's "tried and true" in the insurance business with a full understanding of how it works.

That is in contrast to previous owner Exor, which had done "many good things" for PartnerRe, but bore more similarities with a private equity relationship.

He also pointed to the potential, although nothing is guaranteed, for PartnerRe's A+ S&P rating to move up to the higher AA- level held by Covéa at some time in the future, an outcome which would be advantageous to the reinsurer's non-life and life business.

The executives confirmed that operationally PartnerRe will continue to function broadly the same as before, with its own balance sheet and capital structure, rather than any consolidation into the broader Covéa group.

Capital allocation decisions are now presented to the PartnerRe board and subsequently to the Covéa board with the possibility to reallocate from other parts of the

group to allow PartnerRe to take advantage of market opportunities where it can make a compelling case to its new owner.

Bonneau said that the reinsurer has enough headroom to address current market opportunities, but will be seeking approval for some limited expansion of its cat appetite, with Covéa at the group level mindful of its overall exposure.

Strategic capacity allocation

"We think that the market will be extremely attractive, but there will be a conversation we have with the PartnerRe board about where the limit is on how much we want to underwrite," said Bonneau.

He added that the reinsurer would only take risk in line with its capital base.

"We're not backing down … but even if the market got

> We believe that by putting Covéa and PartnerRe in the same group, we will be able to better respond to the issues that most concern our clients. The challenge is not only about climate change, but how to stay ahead of radically changing risks today and for years and years to come
>
> **PartnerRe chairman and Covéa CEO Thierry Derez on the rationale behind the deal**

so, so hard, I would say there's only a certain limit, and I think we're close to it in terms of what we're proposing," Bonneau continued.

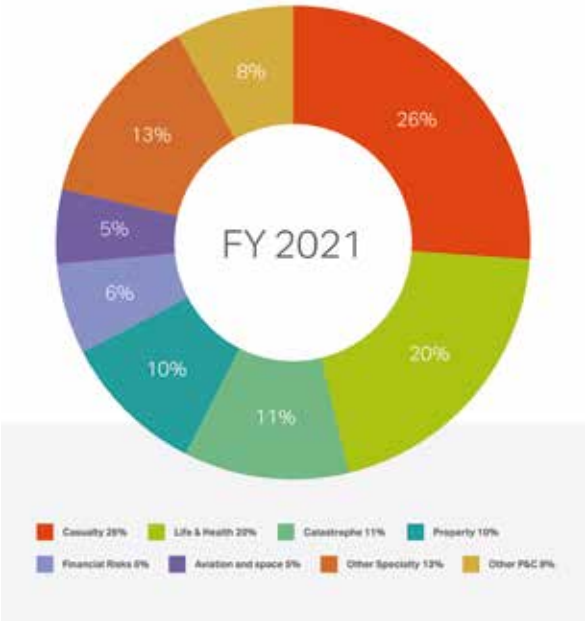
And he said the choice of where to allocate cat aggregate would be highly strategic in a market where demand is set to be significantly up amid surging inflation.

"We view our property cat capacity and what we do in cyber as areas that are strategic for us and we want to offer capacity not exclusively, but first, to those clients where we have other business relationships that we like," said Bonneau.

PartnerRe's plans to grow its cat capacity – albeit modestly – are in contrast to a number of other reinsurers that have either pulled out completely (Axis) or significantly retrenched from the business line, including Markel (shifting cat business to Nephila), Axa XL (down 40%), TransRe (down 25%) and Scor (down 21%)

PartnerRe

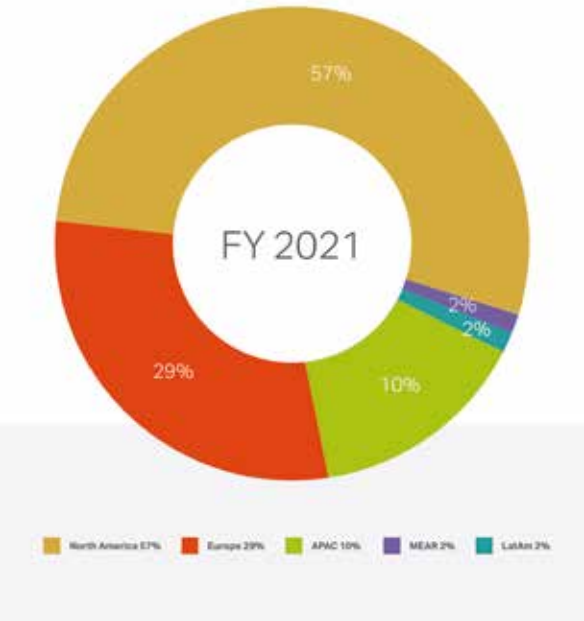
Gross written premiums by line



Source: PartnerRe

PartnerRe

Gross written premiums by region



Source: PartnerRe

against a backdrop of frequency and severity losses, model miss, climate change concerns and rampant inflation.

Bonneau said clients are likely to take into account a reinsurer partner's willingness and ability to support them in property cat as they look at their relationship across the portfolio.

"There are some companies that have pulled out of property cat, and they are of the belief that they will be able to retain their other reinsurance business. Time will tell," he commented.

A dominant theme at the Monte Carlo *Rendez-Vous* has been the availability of cat capacity and how a demand-supply imbalance will drive pricing dynamics at 1 January and through 2023.

Bonneau also highlighted the impact of mark-to-market unrealised losses across the industry, which is another factor in reinsurers determining how much capacity they can put out.

The executive said pricing at 1 January would need to stay ahead of the inflationary trend in order to bring improved margin to reinsurers in property cat after a challenging few years.

And he suggested that the retro market will also remain tight, with PartnerRe expected to maintain a stable position in that segment.

> We view our property cat capacity and what we do in cyber as areas that are strategic for us and we want to offer capacity not exclusively, but first, to those clients where we have other business relationships that we like
>
> **PartnerRe CEO Jacques Bonneau on strategic deployment of cat capacity**

Alignment on inflation

With inflation the key driver of increased demand for property cat reinsurance, reinsurers will be heavily focused on ensuring that they have a full understanding of how cedants are reflecting surging valuations in their underlying portfolios.

Inconsistencies around insurance-to-value have been exposed in the property insurance market in the last couple of years, leading to higher-than-expected claims where properties and schedules have been undervalued – an issue now thrown into sharper relief by surging material and labour costs.

Bonneau said that PartnerRe has been proactively approaching the issue by sending out questionnaires to brokers and some of its larger clients to ascertain how they are looking at inflation, how policies respond and their strategy to keep insured values up to date.

"We are then asking for information to help substantiate what they're saying. We want to make fact-based decisions, and we don't want to overcharge people – that's not the objective. But we do want to make sure we get to the right adjustments and the right price for the risk that we're taking," he explained.

He added that cedants looking for an early renewal in a tight market for capacity will need to provide sufficient information early enough so that reinsurers can assess the risk and provide an early quotation.

"The brokers and the clients at the end of the day need price discovery, and if everyone sits around and waits until the end, they're not going to get it done until the end," the executive commented.

Third-party capital growth

As well as looking to increase cat appetite on its own balance sheet ahead of 1 January, PartnerRe is also in discussions with potential investors that it hopes will enable it to harness more capacity and add to the $1.1bn of assets under management (AuM) in its third-party capital platform.

"It helps us because there's a limit to the risk that we can take on our own balance sheet. And what we offer third-party investors is that we are completely aligned. We always have a meaningful participation as a risk taker so there is complete alignment of interest.

"We also have the expertise and the distribution capabilities, and we've got the relationships with both the brokers and the clients to access an attractive portfolio," said Bonneau.

The reinsurer has allocated resources and made investments in the business over the last couple of years, and for 1 January 2022 established three funds for different levels of investor appetite: low risk, medium risk and high risk.

"That'll probably be the area we will attract the more traditional pension fund money. We do have some pension fund money in our AuM, with the rest coming from private equity and other kinds of investors," Bonneau suggested.

He acknowledged that raising money from investors for cat is challenging because of a tough few years in the space and concerns around climate change and cat models, but said the company is hopeful that it will attract some new investors or have existing investors increase their allocations.

Bonneau also pointed to the benefit of Covéa ownership as it looks to bring in new investors.

"They've got contacts that we don't have, and they're in the process of opening some doors for us to have some conversations and discussions with people that they know very well," he commented.

Global specialty (re)insurance equity index holds up three times better than overall market in YTD

The global specialty (re)insurance-focused RISX index – which targets publicly listed companies with underwriting subsidiaries at Lloyd's – continues to outpace the overall market with a 6.8 percent year-to-date fall in net total return terms, compared to an 18.2 percent drop on the MSCI World (Net) USD index.

Launched in May 2021, ICMR's RISX index is an equity benchmark for the global specialty (re) insurance sector.

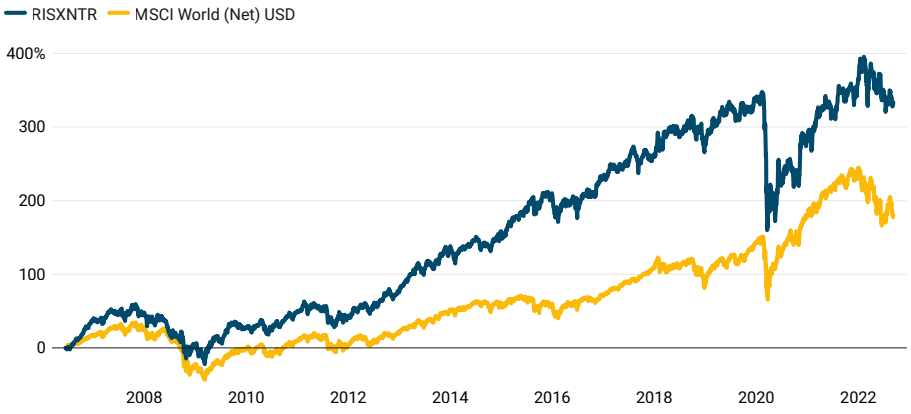
It measures the performance of companies much more closely associated with specialty and major catastrophe risk than other equity indices, which tend to include life insurance companies and brokers.

The benchmark demonstrates that over the long run, global specialty (re)insurance equity has proved a superior investment compared to the overall market, yielding a gain of 333.9 percent since the start of the index on 16 June 2006 versus a gain of 180.7 percent for the MSCI World USD index, both in net total returns terms.

It also shows that the global special (re)insurance industry was less affected by the financial crisis but

RISX index vs MSCI World (Net)

Net Total Return (%) since 16 June 2006

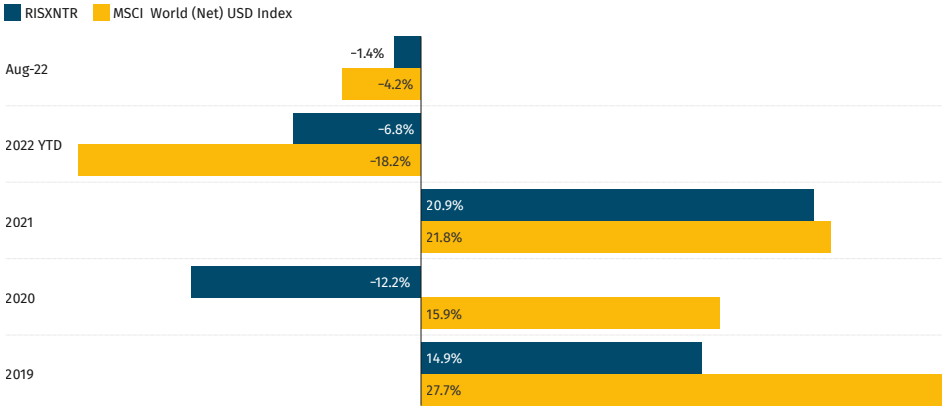


Source: *The Insurer* based on ICMR and MSCI

more impacted by the Covid-19 outbreak, an impact from which RISX share prices have not recovered as quickly as the broader market.

Indeed, 2020 saw the RISX index record a fall of 12.2 percent in terms of net total returns against a 15.9 percent gain on the MSCI World (Net) USD index – a disparity which persisted the following year as both benchmarks recorded similar expansions.

RISX index vs MSCI World (Net)



Source: *The Insurer* based on ICMR and MSCI

However, RISX share prices have held up almost three times better than the overall market since the start of 2022, which is helping to reduce the relative gap opened since the outbreak of the pandemic.

The index has recorded a net total loss of 6.8 percent for the year to date, compared with negative returns on the MSCI World of 18.2 percent over the same period.

> RISX share prices have held up almost three times better than the overall market since the start of 2022

A lens from the investor perspective

The RISX index is based on listed companies with underwriting subsidiaries at Lloyd's which account for over two-thirds of Lloyd's premium and underwrite over 25 percent of all global non-life (re)insurance premiums (equivalent to around $500bn annually).

It measures their aggregate equity performance, weighted by their premiums written both at Lloyd's and globally.

Rather than being weighted by market capitalisation, the RISX constituents are premium weighted to better replicate the underlying risk profile of specialty (re)insurance.

This produces an index with 30 constituent companies based across the globe that mimics the risk profile of Lloyd's.

The index originated from Insurance Capital Markets Research (ICMR), the analytic and consulting firm created by former heads of research and analysis at Lloyd's Quentin Moore and Markus Gesmann.

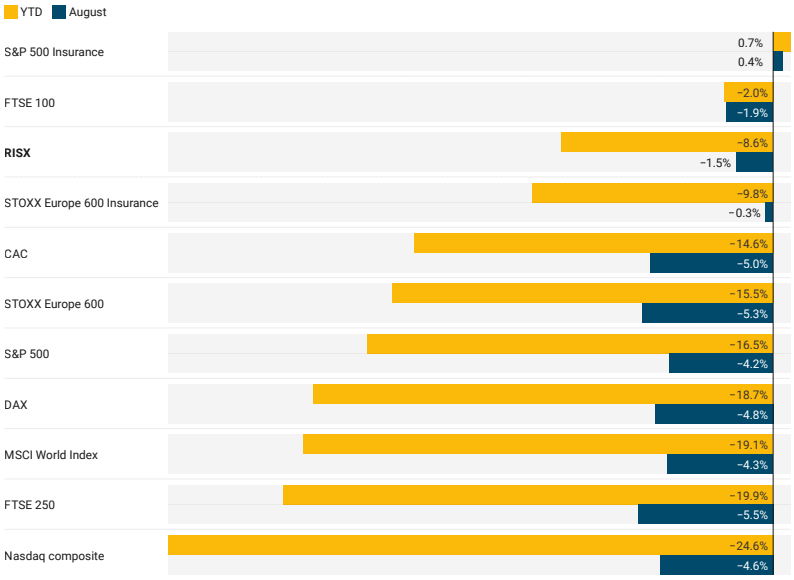
Two versions of the RISX index are calculated daily: a price return index (ticker: RISX) and a net total return index (ticker: RISXNTR) i.e. with dividends reinvested net of withholding taxes.

2022 price return performance

RISX's design as a tradable equity index allows for an alternative benchmark for specialty (re)insurance-driven results that is more targeted than existing generalist insurance equity indices.

Consequently, the price return version of the index can be compared against popular stock market benchmarks to provide a good picture of the relative price performance of global specialty over a certain period of time.

RISX index vs composites



Source: *The Insurer* based on ICMR and S&P Capital IQ Pro

As of 7 September 2022, for example, the index was down 8.6 percent year to date compared to a fall of 16.5 percent for the S&P 500.

The index also fared well against European markets, with the French CAC, the German DAX and the FTSE 250 recording year-to-date falls of a much greater magnitude than RISX.

When pitted against available insurance benchmarks, however, the performance of RISX

was less impressive.

RISX fared only marginally better than the Stoxx Europe 600 Insurance index, which fell 9.8 percent over the first eight months, and was far behind the 0.7 percent increase for the S&P 500 Insurance benchmark (which includes major life insurance companies as well as brokers).

Lloyd's valuation through the insurance cycle

The RISX index's focus on listed global (re)insurance companies with underwriting subsidiaries at Lloyd's has led ICMR to depict it as a measure of the value of One Lime Street itself.

Indeed, by aggregating the price data of syndicates' publicly listed owners in a way that proxies Lloyd's risk profile, RISX is able to provide a shadow price for Lloyd's as if it were a listed company.

But as ICMR argues, other metrics like price-to-book (P/B) values can be aggregated in the same way using the RISX weights to gain more insight into Lloyd's valuation and measure its evolution over time.

Indeed, by comparing the distribution of trailing P/B multiples of the publicly listed owners of Lloyd's businesses (at the end of March of each year) with the aggregated RISX portfolio P/B value as a proxy for the Lloyd's market, ICMR demonstrates that – apart from the most recent period – the RISX P/B metric has been better than the median performance of the constituents.

ICMR interprets this as a testament to Lloyd's central decision-making over which syndicates it allows to grow or shrink in its marketplace but also a demonstration that – for most businesses – owning a Lloyd's underwriting franchise enhances its value proposition.

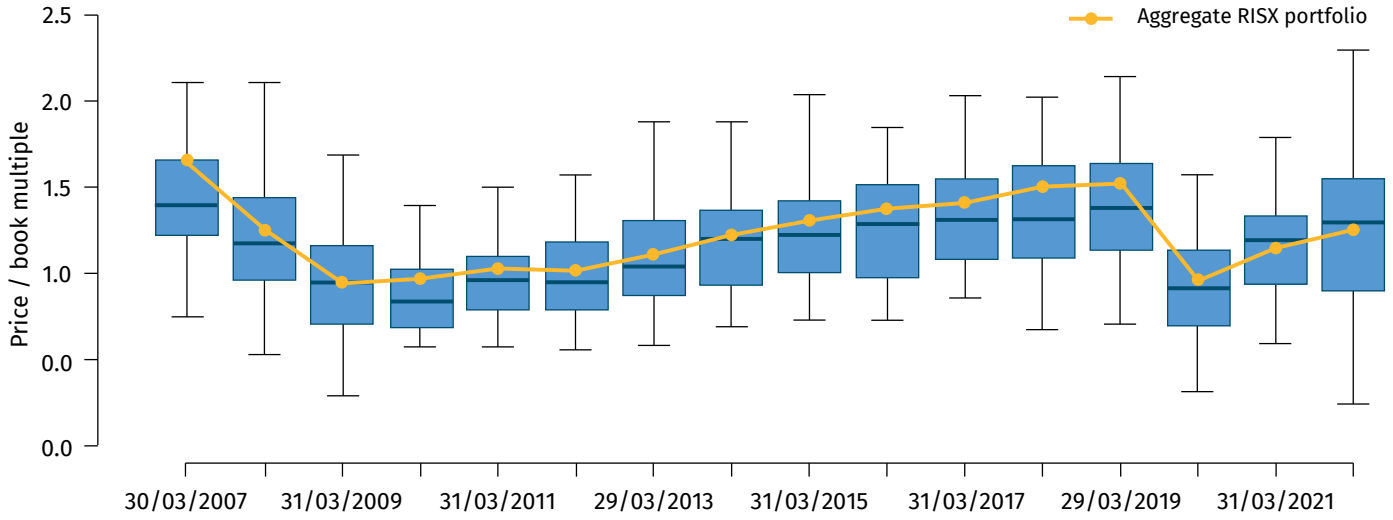
RISX index composition – top 10 constituents

Security	Symbol	Weight
Beazley	BEZ.L	8.67%
Fairfax	FFH.TO	6.55%
QBE	QBE.AX	6.20%
AIG	AIG	5.36%
Tokio Marine	8766.T	5.32%
Hiscox	HSX.L	4.60%
China Re	1508.HK	4.53%
MS&AD Insurance	8725.T	4.43%
Axa	CS.PA	4.41%
Axis	AXS	4.03%

Source: *The Insurer* based on ICMR

> The index also fared well against European markets, with the French CAC, the German DAX and the FTSE 250 recording year-to-date falls of a much greater magnitude than RISX

Distribution of price to book multiples of RISX constituents



P/b: Market cap at end of March / Book value at 31 Dec

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Analysing Lloyd's syndicates as an investment market

Through its RISX index methodology, ICMR can provide a mark-to-model valuation for Lloyd's investments

The Lloyd's market appears buoyant with many syndicates aiming to grow their footprint by double digits in 2023.

At ICMR we believe the next few years should see Lloyd's returns exceed its cost of capital again.

As a result, we expect more M&A activity as investors look to take advantage of the increasing value of insurance franchises with improving underwriting performance.

The traditional pricing metric in our industry is the price-to-book multiple (P/B).

The following chart shows the long-term trend of P/B versus performance, using the RISX constituency of listed global P&C (re)insurers.

Using the relationship between relative return on capital performance and relative P/B multiples within the confidence interval shown above, it is possible to extrapolate a valuation map for every Lloyd's syndicate.

The next chart illustrates every syndicate at Lloyd's ranked by amount of value created, or destroyed, for their investors. A number of assumptions have been made (listed beneath the chart) but it does serve to underline that Lloyd's is home to a wide variety of underwriting performance and therefore value propositions for investors.

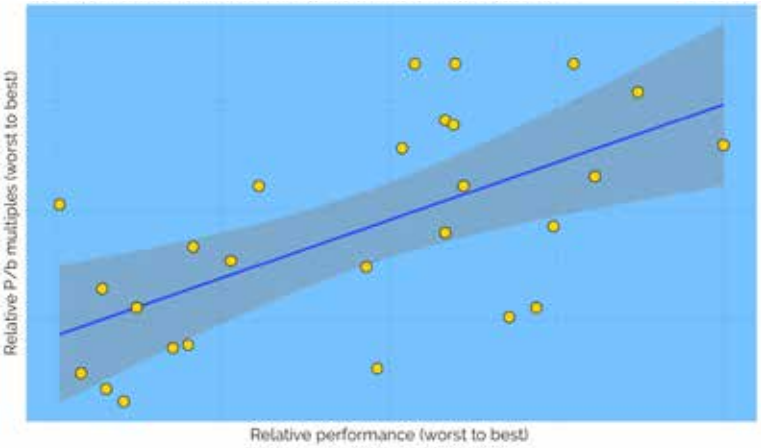
Clearly this is only an outside-in view and investors' actual return expectations will be influenced by a significant number of factors which cannot readily be modelled.

But it does demonstrate how careful investors new to the market must be.

Relative performance is particularly stable, meaning underperforming syndicates tend to stay underperforming even in good times.

At this time of elevated M&A activity in the sector, new investors need to be confident they are not buying into a business in need of major restructuring, rather than simply development capital.

Valuation vs performance for publicly listed Lloyd's owners



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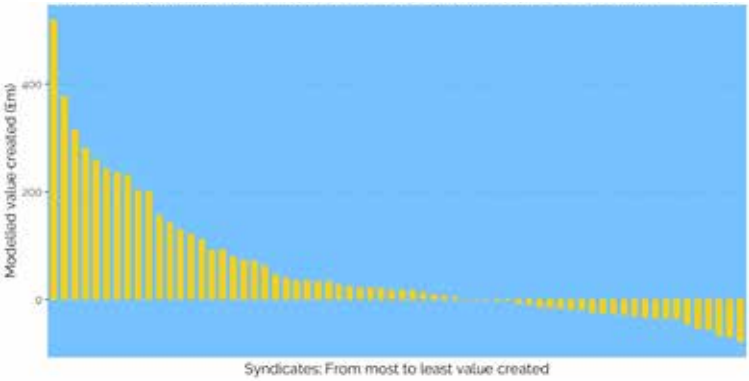
Source: ICMR analysis using RISX index constituents, companies' financial statements

Value created/(destroyed) in excess of funds at Lloyd's for each syndicate



Source: RISX equity index. ICMR analysis. August 2022
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ICMR uses a mark-to-model to provide daily valuation of Lloyd's syndicates, derived from the RISX equity index and its constituents' trailing balance sheet data, ICMR's outside-in view on syndicates' capital and trailing syndicate performance data. Each syndicate is modelled as if it were a fully aligned entity with one capital provider.

Aon aims to bring partnership feel through new Strategy and Technology Group

Aon's formal launch of its Strategy and Technology Group (STG) ahead of this year's *Rendez-Vous* in Monte Carlo marked a milestone in the broker's drive to broaden its capabilities for the insurance industry.

The broker drafted in seasoned insurance consulting executive Colin Forrest earlier this year to lead the new team.

Forrest told *The Insurer* the move was driven by a desire to "elevate client experience to the next level".

"We have taken various teams from across Aon and put them together in one tech suite. By bringing these people together we have created a culture that will develop new solutions that simply did not exist before, helping to address underserved markets and augment existing areas of focus."

Forrest said Aon's acquisition of actuarial software platform Tyche, announced in March this year, had further complemented the build-out of the new STG unit.

He said the launch of STG comes amid "the most challenging environment any of us have ever seen".

For many companies, adapting to current macro and market conditions has prompted a need to refocus their activities and seek assistance to navigate volatility.

"STG has formed at the right time to work in partnership with our clients, rather than simply taking a suite of products to sell them.

"The market wants that partnership feel – we need to be in the tent with them – and in doing so we believe we can help take clients to the next level and help them to make better business decisions."

Forrest said the group was already holding conversations with clients around how to deploy capital in the most effective manner, as well as around challenges such as claims volatility and climate change, which will ultimately help them to build business resilience.

> "The market wants that partnership feel – we need to be in the tent with them – and in doing so we believe we can help take clients to the next level and help them to make better business decisions"

"There is an increased focus on the role we can play in making society a better place. The rise of ESG has refocused the C-suite of companies around purpose, and raised the question as to how to do good while running a commercial enterprise.

"We have a lot of capacity within the components of STG to generate more innovative solutions and underpin that with a technology offering," Forrest added.

He said this could be achieved by "unleashing the creative capacity of our people and giving them space to think differently around client problems".

"The wide range of components we have at Aon is a differentiator – no one else can compete with that. We are focused on bringing the full power of our resources to our clients in a joined up, collaborative way.

"Having our consulting and technology arms integrated together and absolutely focused on the client experience – I also see that as a differentiator. I don't see any other firm working in partnership in the way we want to work with clients."

While the STG team will initially be mainly focused on Europe, it also has a significant presence in the Americas – one Forrest hopes to further expand – and has also targeted growth in the Asia Pacific region.

"We are operating as a truly global enterprise," Forrest said.

Lessons from the past: it's not a hard market – it's a rising one

Liberty Mutual Re's Hans Towler and Dan Carroll look back at the company's journey in aviation reinsurance and what can be learned from the past

Aviation reinsurance was one of the founding specialty lines of business at the start of what is now Liberty Mutual Reinsurance (LM Re). The aviation reinsurance team joined in 2001, writing purely excess of loss (XoL). Twenty years later, LM Re's aviation reinsurance division continues to strengthen its position as one of the leaders in the field.

Establishing the business

We started strongly in 2001. We could not have anticipated the 9/11 terrorist attacks that year, which would impact the whole aviation market and redefine the future of the segment. We recognised that we needed to focus on existing strong long-term relationships to build a leadership position, backed by the commitment of senior management throughout the Liberty Group. The team was at the forefront of implementing essential changes to aviation (re) insurance and as a result, our income quadrupled in a year with our key relationships enhanced.

Our mutual status enabled us to demonstrate our long-term commitment to our clients and build strong relationships through challenging times. This philosophy and approach remains at the heart of our strategy today.

Consistency and transparency

Income has ebbed and flowed with the market in the intervening years. It peaked in 2006 then fell to its lowest level by 2017. This was due to concerns over market pricing and coverage, resulting in LM Re taking several steps to manage the cycle. The key success factor was our consistent and transparent approach to pricing.

Diversification

As the market stabilised in 2017/18, we identified the need to diversify and grow the book to reduce potential volatility and broaden our offering to key clients. We perceived that the direct market was turning, so that quota share (QS) solutions were potentially more viable for us. We also found that competitors were using a wider product offering to leverage XoL shares at the expense of pure XoL underwriters. We therefore decided to start writing QS in 2018, initially with the account split 85/15 between XoL/QS. The split is now nearer 75/25. We have also strengthened and broadened relationships with certain key LM Re clients who themselves have demonstrated long-term commitment to QS purchasing and to LM Re.

> "Placements in (re)insurance are not struggling for completion and so we would characterise the situation as a rising market rather than a truly hard one"

Recent events

The last five years have seen some of the most dramatic events in aviation history. The Max 8 losses in 2018/19 once again significantly impacted the whole market and LM Re's approach was consistent with past responses – to show leadership from the team and commitment from senior management to be a reliable partner to the market. The combination of these factors and the development of the QS book means our forecast income for 2022 is back at its historic peak and we are keen to expand our business further.

A hard market or a rising one?

Hard markets are defined by capacity, not price. By this definition, the last truly hard market was in 1990/91, when capacity was in short supply across most specialty lines and where prices rapidly doubled and even trebled.

The aviation market is currently going through a phase of increasing rates and potentially also structural reforms to the underlying insurance product. However, placements in (re)insurance are not struggling for completion and so we would characterise the situation as a rising market rather than a truly hard one.

Significant losses from current world events could still arise and major capacity withdrawals could follow, in which case a truly hard market could develop. In the meantime, factors such as the potential for systemic losses, current events and market-wide concerns around social inflation mean that we must continue to focus on price adequacy and sensibly structured products to meet our clients' core needs.

In this way, we can help to ensure that aviation (re) insurance is a sustainable product for the long term, a big challenge, but one which LM Re has the security, capability and drive to meet.

Hans Towler is head of aviation reinsurance and Dan Carroll is senior underwriter aviation reinsurance at Liberty Mutual Reinsurance

Don't let data inconsistency exacerbate a catastrophic event

RMS' Cihan Biyikoglu highlights how integrated data system designs can help avoid inconsistency issues

Across every enterprise, we have more data and apps at our fingertips today than ever before. We all deal with multiple systems across departments to execute and optimise critical risk decisions.

Each decision centre uses systems built by in-house teams or vendors, all creating and storing their own version of data, and then, as integration teams move in, each system copies data from each other. What's wrong with this picture?

Data inconsistency issues – which are not exclusive to risk management – can quickly snowball into bigger problems from missed opportunities to costly financial mistakes. An IBM study stated data quality issues cost the US economy $3trn. The industry can avoid these mistakes with integrated data system designs.

For an insurer or reinsurer, risk trading decisions are complex as teams collaborate across underwriting, exposure management, actuarial, finance and other departments. Each discipline also has its own systems which optimise part of the risk puzzle. Each system is built for a purpose, but none is designed to host data from other systems.

Some systems create new data, others compile new insights from existing data. However, they are all siloed systems. These systems require copies of your data: your portfolio, accounts, policies, treaties and more. Each system then makes its own edits, iterating on its own snapshot.

After a few cycles the data starts to drift and fork away. Each system has an incomplete view, each copy gets out of date and inconsistent. No single copy is your complete "golden" data or a single version of truth.

> "Data inconsistency issues – which are not exclusive to risk management – can quickly snowball into bigger problems from missed opportunities to costly financial mistakes"

Cihan Biyikoglu, executive vice president, RMS

Why does this matter? Let's go back a year to September 2021 and Category 4 Hurricane Ida is unfolding.

The clock ticks as your business attempts to understand potential event losses. Teams try to set underwriting moratoriums. Risk analysts scramble to find and implement the latest event tracks and shapefiles to understand portfolio losses for various business lines. And your claims teams are figuring out loss adjuster allocation.

Your CEO is also expected to report on losses to shareholders and the board.

But both the cat modelling and exposure management systems report concerningly different loss expectations. Both systems use copies of the same portfolios – copied at different times between various systems, with different exposures and policies. And with multiple edits across systems, they have experienced significant information drift.

Meanwhile, the hurricane gets closer, changing direction from the initial tracks and the pressure for accuracy is high.

To help resolve the issues of siloed risk systems, the RMS Intelligent Risk Platform unites all teams from exposure managers, underwriters and treaty managers with a unified data store with a shared copy of your data: your portfolio, account information, policies, treaties and more.

Importing a new account snapshot into RMS Risk Modeler enables data to be immediately available via our ExposureIQ and UnderwriteIQ applications to get answers to your questions. The shared data model enables these applications to speak the same language, which can be extended to other in-house and third-party applications to store portfolios and accounts of exposures, policies and treaties.

Learn more about the Intelligent Risk Platform and IQ applications that run on our platform on our website.

Carnegie-Brown: sector not yet fully utilising green investment potential

Lloyd's chairman Bruce Carnegie-Brown has said the (re)insurance sector could better utilise its role as an institutional investor to support green growth in the global economy but said regulatory changes will be needed if it is to use its assets to their full potential.

Carnegie-Brown said Lloyd's had already taken steps to guide the market in how to approach climate risks and remained committed to helping insurers develop the plans needed to support a net-zero underwriting position by 2050. However, he stressed that there was still more the sector could do – particularly in its role as an investor.

"Certainly we can play a role on the underwriting side of the balance sheet and happily at Lloyd's we have a stronger reputation than the industry as a whole for innovation although I think the industry itself needs to be more innovative than it is," he told the RPC Global Access Conference, alongside Canada's former prime minister Stephen Harper.

"But I think there's a second part on the investment side of our balance sheet where we can do more."

He said that while an increasing number of insurers have pledged to increase investments into green technologies and apply pressure to heavily polluting clients, there remains contention between the industry and regulators over the capital treatment of long-term investments.

"Governments are quite interested in solutions that don't cost them money. So adjusted regulation, not in the way that debases regulation but has a pragmatic approach to assisting investment in smart sectors that will help the economy reduce actually the net impact of climate on financial services firms and the economy more broadly, then I think there is a receptivity there," he continued.

Despite a strong desire from firms to allocate greater portions of their capital towards so-called green assets, Carnegie-Brown said the overly cautious approach adopted by regulators prevented the sector from fully utilising its role as an investor.

> "We're appealing through the government and regulators in a number of areas to ask for a change within the regulatory requirements that would allow us to make longer-term investments that help the sustainability industry grow"

Under the current Solvency II insurance capital regulations, the insurance industry argues that the critical need for green infrastructure and technologies to reach net zero is not accurately reflected in the risk level assigned to such assets.

Carnegie-Brown explained that reform of the capital rules could significantly increase the sector's contribution to combating climate change, and pledged to lobby policymakers for regulatory changes.

"Some of the issues are regulatory in nature so unsurprisingly in the non-life insurance market, we're obliged to hold most of our assets in cash or short-term highly liquid instruments because the cash is ultimately there to pay claims. And there's a huge capital burden if you try to invest in longer-term, less liquid assets," he said.

"We're appealing through the government and regulators in a number of areas to ask for a change within the regulatory requirements that would allow us to make longer-term investments that help the sustainability industry grow," he continued.

Carnegie-Brown acknowledged that while such conversations were difficult to have, policymakers have been "receptive" to the market's pleas.

Canada's Harper: Net-zero by 2050 virtually "unachievable" at current pace of change

Too heavy a focus on national net-zero strategies and a lack of transparency around how global environmental goals are to be achieved could lead to a spike in emissions, Canada's former prime minister Stephen Harper has warned, adding that current targets are "unachievable" in their current form.

Speaking alongside Lloyd's chairman Bruce Carnegie-Brown, Harper said environmental targets currently lack "concentration" on how they are to be achieved. He said pledges made at the international level are consistently not met and yet are followed by new, more ambitious targets.

Harper said that the 2050 net-zero emission targets, established by the UN's Intergovernmental Panel on Climate Change, have stemmed from the culmination of failed attempts at previously established targets, a trend which cannot continue if real action on climate change is to be taken.

"The world has been on a treadmill for the last 30 years. We have, through various international processes, set targets but targets without any real concentration on how they are to be met," Canada's 22nd prime minister told the RPC Global Access Conference, hosted by *The Insurer*.

"This a very unique area of public policy whereby we think that just by setting targets we will achieve something. We set targets and we don't understand how to meet them. Then when we fail to meet them, we come up with a more ambitious target as a solution."

While Harper said science-based targets work in principle, in practice he said they help perpetuate a belief in technological salvation that diminishes the sense of urgency surrounding the need to curb emissions in the present.

"Let's be clear about this: with the technology we have today, there is no way of achieving that [net-zero target]. That is unachievable," he continued.

He qualified this statement by saying that the current 2050 climate goal is unachievable unless governments – and voters – are prepared to see a "significant shutdown of economic activity and a significant lowering of standards of living around the world". "I exclude this as a reasonable scenario," he said.

> "Let's be clear about this: with the technology we have today, there is no way of achieving that [net-zero target]. That is unachievable"

Harper also noted that the adoption of a net-zero target doesn't necessarily indicate whether a country is on track to wean its economy off the fossil fuels that produce most greenhouse gas emissions in time to stop the worst of climate change – or that it even intends to do so.

From an industry standpoint, Carnegie-Brown noted that it is the scale of the climate challenge that makes it so complicated to resolve in a coherent way.

"I liken it to the aspirations of President Kennedy in terms of landing on the moon. He put a vision out at the beginning of the 60s and had no idea how to achieve it but with the right kind of ingenuity you get there in 1969," Carnegie-Brown said.

"It isn't about one country's idea of itself investing unlimited dollars in moving in a particular direction, you've got to engage a huge number of countries with very different economic models at very different stages of their development. And there are winners and losers in this. It is uniquely difficult."

Axis' Silas: Credit and political risk market faces "increasing complexity and uncertainty"

Michael Silas, head of global credit at Axis Re, responds to our questions on the latest trends in credit and surety reinsurance

What themes is Axis Re seeing in the credit and surety reinsurance space?

In the credit and surety reinsurance sector, industry conversations are dominated by increasing complexity and uncertainty – a short list of concerns includes the Russian invasion and resulting sanctions, rising inflation and central bank interest rate hikes to correct the trend, and increasingly vulnerable emerging market borrowers.

Firstly, credit and political risk claims notifications emanating from Ukraine and Russia are slowly hitting the market. Estimates of notional exposure – not claims – start in the mid-single digit billions of dollars. As events are still unfolding, it is possible to imagine a worst-case scenario.

Secondly, we are also seeing the unwinding of a multi-decade low inflationary environment, which could bring recession to the US and more likely Europe. This situation isn't helped by the changing prioritisation of China's government, which seems to have downgraded economic growth in pursuit of political priorities.

Lastly, emerging market hard currency sovereign and corporate borrowers are coming under stress in servicing hard currency debt (and higher oil/food import costs) from depreciating local currency revenues, at a time of reducing global growth expectations. Sri Lanka, Lebanon and Russia have already defaulted on their sovereign debt.

What do you think the main topics of discussion will be ahead of 1.1 in the global credit and surety reinsurance space?

Inflation from both supply and demand, rising interest rates, a strong dollar and emerging market default expectations, supply chain disruptions and lagging resilience to near-term energy challenges are just a few of the challenges likely to dominate discussions ahead of 1.1. Preparing for and management of all these conditions will be the focus of discussions.

What do you see as the opportunities facing Axis Re in the global credit and surety space?

Whilst we recognise the near-term headwinds, the credit cycle and future instability are inevitable and should be prudently managed, not feared.

In surety, we expect important investments in infrastructure worldwide to support economic growth and employment. We also expect green energy infrastructure to take a key role in European plans to reduce/avoid any future dependencies.

We are excited about the range of opportunities for Axis Re, and we're committed to global credit as one of our four focus areas in reinsurance. We have established a new global credit team that brings together credit, surety and mortgage expertise allowing for enhanced product offering supporting our existing customers and the flexibility to broaden our customer base (e.g., increased appetite for structured credit and political risk insurance).

Axis Re recently identified credit as one of its key areas of focus, in addition to A&H, casualty and specialty. Why?

Axis Re recently shifted its focus to specialist reinsurance lines with a commitment to A&H, casualty, credit and specialty, and is focused on disciplined growth with our partners in each of these areas. We bring deep expertise in credit and have established a dedicated global team, which includes surety and mortgage.

Casualty will benefit from more expert treatment

The last two years tested nerves in the casualty market, but the worst fears failed to materialise. TigerRisk's Joshua Everdell examines how experience and judgement can help reduce the stress

A definitive view on what Covid-19 really meant for casualty lines is not quite possible yet, with claims far from over and legal disputes still under way in some cases. As the pandemic finally begins to pass into history one thing is clear, however – the casualty market once again proved to be notable for its unpredictability.

The casualty market was already hardening in 2019 as primary insurers began to re-evaluate risks and rate adequacy. As the global pandemic accelerated the hardening the outcome for capital exposed to property and casualty looked potentially severe. But the response of authorities to the pandemic saved lives, both by directly curtailing the spread of Covid-19, but also indirectly as the slowdown or closure of large parts of the economy also dramatically reduced the incidence of casualty losses.

The data now emerging for casualty in 2020 shows a dramatic drop in frequency and claims, while at the same time rates were hardening. The picture is never quite as simple as one might expect during the event.

> "On balance, we think rates will stay stable in the near term, and in particular, the reduced use of limits seems to be largely intact"

Casualty is in a stable condition

Today, casualty rates are markedly higher than pre-2019 – a correction that was under way and largely inevitable with or without a pandemic – but they remain decent. On balance, we think rates will stay stable in the near term, and in particular, the reduced use of limits seems to be largely intact. There are still significant severity loss trends with which carriers have to contend, but pricing and limits use has mitigated their effects.

Reinsurance capital is stable in casualty at the moment and that is based on the expected returns. Indeed, there are signs that alternative capital has increasing interest in the casualty market. How this develops, their precise appetite for risk and their expectation for return will be significant factors in how the casualty market develops over the coming months and years.

Joshua Everdell is global head of casualty and head of global accounts at TigerRisk

The unexpectedly low levels of casualty frequency and losses during the pandemic coinciding with rising rates and the potential interest from new capital sources demonstrate that operating in casualty markets requires a depth of knowledge and experience.

A combination of analytics and judgement

Analytics are a vital tool in today's complex insurance markets and the combination of TigerRisk and Howden creates a business with sophisticated analytical skills. It also creates a business with human experience, which in casualty is an essential ingredient. Quantitative analysis is essential, but in the moment, particularly in unexpected conditions such as we have all experienced over the last two and a half years, qualitative judgement is also key.

Casualty insurers are looking for expert advice on their original insurance business, both data analysis and experience to help them get their book in as good a shape as it can be. Further, they are looking for creativity and thoughtfulness in how they structure their reinsurance. Part of those solutions will be taking a broader look at their lines of business. Many clients in casualty are also in property and can benefit from examining how they can align and balance those lines of business and their access to capital. Investment banking capability, such as that provided by TigerRisk Capital Markets and Advisory, will be a valuable service to those clients.

Casualty may not be facing quite the same degree of stress that other lines are currently undergoing. However, clients need more than advisers that look at insurance lines entirely in isolation. Our industry needs and deserves something rather more sophisticated.

(Almost) everything in moderation

Insurance executives are in agreement that US P&C rate increases are moderating, in contrast to the increasing loss cost assumptions revealed by some carriers, but there is confidence discipline will be maintained.

A common theme on second quarter earnings calls was that US commercial rate increases are moderating but remain above loss cost trends.

For example, Axis Capital president and CEO Albert Benchimol's summary was typical: "Market conditions are still favourable and while, as expected, the rate of increase is declining, we continue to achieve meaningful increases across nearly every line we write and remain, on the whole, ahead of loss cost trends."

Benchimol said that Axis achieved Q2 rate increases in its insurance book of close to 10 percent – the 19th consecutive quarter of rate increases, which now in aggregate exceed 50 percent since the beginning of 2017.

By class of business, Benchimol said professional lines once again saw the strongest pricing actions with average rate increases of more than 16 percent. However, this included some interesting divergence in pricing trends, with cyber up 62 percent but public D&O falling 15 percent while the rest of the professional lines book was up almost 7 percent.

Axis's casualty lines averaged increases of over 7 percent, as did property, while the other specialty lines book experienced single-digit rate increases.

On Arch Capital's second quarter earnings call, CEO Marc Grandisson highlighted that "P&C rate hardening continues in many lines". And he stressed the importance of keeping in mind that "we've been able to achieve compounded rate increases meaningfully above loss cost trends for the last two or three annual renewals and, as such, healthy margins of safety have been created".

Grandisson added: "We believe this attractive level of expected returns should remain in place for the next few years."

On another Bermudian (re)insurer's earnings call, Everest Re president and CEO Juan Andrade revealed that his company in Q2 achieved insurance rate increases of 7.3 percent excluding workers' compensation – down from 9 percent in Q1 2022 – with high single-digit increases in property, professional lines, umbrella and commercial auto.

> "The market is rational to me at this time, even though it's becoming more competitive"
> **Evan Greenberg, chairman and CEO of Chubb**

"These rates remain well above pre-pandemic levels," Andrade said. "It's also important to note that in addition to renewal rate change, there are other levers we deploy to ensure that margins continue to expand, such as coverage, terms and conditions, limits management and attachment points, risk selection, new business pricing – which continues to be higher than renewal pricing – and the benefit of additional premium from inflation-sensitive exposure basis."

Andrade noted Everest has seen strong growth in its US casualty, specialty lines and in its international business, and continues to see significant opportunity in the E&S space.

Loss cost assumptions revised

Evan Greenberg, chairman and CEO of Chubb, said market conditions in Q2 "remained favourable overall, while the level of rate increases is moderating".

Chubb's North America commercial lines rates increased by 7 percent (compared to 8.7 percent in Q1 2022 and 10.5 percent in Q4 2021), while total pricing, which includes rate and exposure, increased over 10.5 percent.

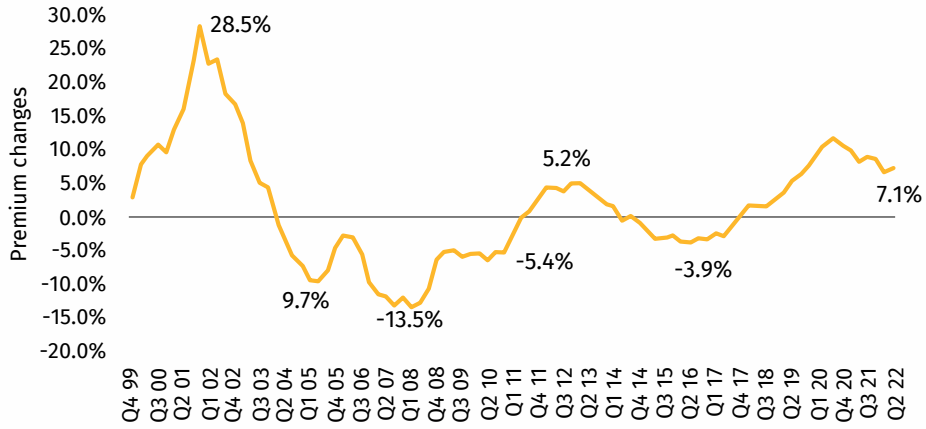
"The rate environment is naturally becoming a bit

more competitive, particularly in certain casualty-related classes as more carriers seek to now grow," Greenberg added. "The market is reasonably disciplined, and I expect it will remain so given not only the spectre of loss cost inflation, but the presence of other risk exposures such as climate change, the war in Ukraine, the litigation environment, cyber and the overall cost of reinsurance."

He added: "There are plenty of reminders to managements to get paid for the exposure underwritten."

However, while price increases moderated in the quarter, loss cost trends were increasing. Greenberg said additional rate is required primarily to keep pace with loss costs, "which are hardly benign".

Average premium changes, 1999 - Q2 2022



Source: The Council of Insurance Agents & Brokers

In anticipation of rising costs, Chubb increased its loss cost trends in North America from 6.0 percent in Q1 to 6.5 percent, a figure that Greenberg said should be compared to the 10.5 percent increase in total pricing in Q2.

Chubb is trending loss costs for short-tail classes of close to 7 percent, up from 6.5 percent in Q1.

Greenberg said the market is on one hand becoming more competitive as companies want to grow in what is an adequately rated environment, while on the other hand insurers are also having to react to loss cost trends and inflation.

"The market is rational to me at this time, even though it's becoming more competitive," Greenberg said. However, he added: "On the margin, there are people doing dumb things."

Chubb was not alone in increasing loss cost assumptions.

Mark Lyons, global chief actuary and head of portfolio management for AIG, said the insurance giant's North America commercial aggregate loss trend was up to 6 percent in Q2 compared to 5.5 percent in Q1 2022.

Lyons said AIG is seeing commercial property line loss cost trends of roughly 10 percent while for specialty-oriented property lines it is closer to 15 percent, driven by inflationary trends in construction materials, replacement costs, labour and transportation.

"Our view of casualty, bodily injury and the medical side of work comp, though, is unchanged from last quarter," he added.

AIG's global commercial rate increases were 7 percent in Q2. North America commercial achieved 7 percent rate increases with some areas achieving double-digit increases led by Lexington.

"In the aggregate, rate continued to exceed loss cost trends," said AIG chairman and CEO Peter Zaffino. "This is the fourth consecutive year in which we're achieving rate above loss cost trends and where we are

successfully driving margin expansion," he said.

Loss costs trends won't always be covered

CNA chairman and CEO Dino Robusto warned on his company's earnings call that "we don't assume we will cover our long-run loss cost trends every year going forward".

"In periods when loss cost trends have been increasing, essentially doubling to about 6 percent in the last four years in our portfolio, the pace at which the rate adequacy target moves is also changing," Robusto said. "So we view this period in the cycle as a time to opportunistically continue pushing very hard for rate and balancing the rate retention dynamic in ways that will grow our P&C profit dollars."

The executive pointed to CNA's commercial rate increases remaining steady at 5 percent in the second quarter when compared to the first quarter of this year, and down only 1 point from the third and fourth quarters of 2021.

"So pricing dynamics, by and large, continue to reflect rationality in the marketplace," he said.

Robusto added: "We think that rates have been moderating in a measured way, and we expect to see some up and down movements across the various lines, influenced by how loss cost inflation, cat exposure and overall economic conditions continue to play out."

The Hartford chairman and CEO Christopher Swift noted on his company's earnings call "there has been much commentary about written renewal rates versus loss cost trends and the impact of inflation".

The Hartford's loss pick assumptions reflect trends in the aggregate of approximately 5 percent excluding workers' compensation, which has remained steady in the past few quarters. Swift said the loss trends reflect The Hartford's overall business mix, which skews towards small business and middle market risk.

The insurer's Q2 pricing increase excluding workers' compensation was 6.1 percent, which was about 1 point lower than in the first quarter. "Therefore, we have approximately 100 basis points of spread between written renewal pricing and loss trends," Swift said.

The Hartford's workers' compensation price changes remained positive in Q2 but declined slightly.

Chubb's rate increases moderate in most lines in Q1

	Q4 2021	Q1 2022	Q2 2022
North America commercial P&C overall	10.5%	8.7%	7.0%
North America major accounts overall	10.5%	9.3%	8.0%
North America major accounts primary casualty	Over 4	3.7%	4.0%
North America major accounts general casualty	Over 16	15.5%	13.0%
North America major accounts property	9.7%	9.1%	9.0%
North America major accounts financial lines	Over 17	13.9%	7.5%
E&S wholesale overall	14.5%	Over 11	10.0%
E&S property	12.5%	13.3%	13.0%
E&S casualty	Almost 17	10.0%	8.5%
E&S financial lines	18.5%	15.4%	9.5%
Middle market overall (ex comp)	About 9	7.7 (9.5 excluding workers' comp)	7.0%
Middle market property	9.0%	8.0%	5.0%
Middle market casualty excluding workers' comp	Nearly 9	8.5%	7.0%
Middle market workers' comp	-1.5%	-1.5%	-4.3%
Middle market financial lines	About 19	17.0%	10.0%
International retail overall	13.0%	10.0%	9.5%
London wholesale	NA	9.0%	NA
London wholesale property	8.0%	NA	NA
London wholesale financial lines	24.0%	NA	NA
London wholesale marine	5.0%	NA	NA

Source: Company disclosures, *The Insurer*

Some evidence of price increase acceleration

The feedback about moderating price increases is backed up pricing indices maintained by brokers and others.

MarketScout's US commercial property casualty barometer showed a 5.9 percent increase in Q2, down slightly from 6.0 percent, while Marsh's Global Insurance Market Index showed price increases for the US of 10 percent in Q2, down 2 points from Q1.

In contrast, the Council of Insurance Agents and Brokers' market survey showed price increases ticking up again in Q2 to 7.1 percent, from 6.6 percent in the first quarter.

Travelers chairman and CEO Alan Schnitzer described a "rational and stable pricing market", as signalled by his company's 86 percent Q2 retention rate.

Travelers also reported its quarterly business insurance renewal rate changes were up sequentially

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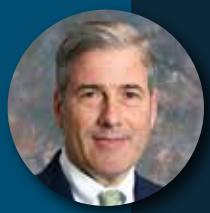
JOHN DAVIS, ARe
Managing Director, Casualty Reinsurance and Business Development
513-870-2933
j_davis@cinfin.com



JAMIE HOLE
Head of Cincinnati Re
513-870-2250
james_hole@cinfin.com

BILL LAZZARO, CFA, CPCU, ARe
Head of Business Development and Specialty Reinsurance
513-603-5635
william_lazzaro@cinfin.com

PHIL SANDERCOX, CPCU, ARe
Head of Casualty Reinsurance
513-371-7670
phil_sandercox@cinfin.com

ERIN SKALA, ARe
Head of Property Reinsurance
513-603-5573
erin_skala@cinfin.com

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in Q2 for ex-national accounts, select accounts and middle market. For example, middle market business was up 10.2 percent, compared with 8.8 percent in Q1 2022 and 9.3 percent in Q2 2021.

Some executives believe loss cost trends should serve to maintain discipline in the market.

Markel co-CEO Richie Whitt said that exceptions to the rate moderation include cat-exposed property and lines such as aviation, terrorism, war and political violence, which have been impacted by the Russia-Ukraine war and other recent large events.

The executive continued that going into 2022 Markel had already baked more inflation into its pricing and loss reserving.

"As we enter the second half of the year with continued signs of inflation, we have adopted an even more cautious approach," he said. "Most of our products' pricing basis is impacted by inflation, and this helps to some extent to offset claims trend."

Whitt continued: "However, we are not prepared to rely on this to maintain rate adequacy. We are going to continue to push for what we believe are must-have rate increases. We believe we are going to have success pushing for these rate increases as all responsible and disciplined insurance market participants must pursue rate increases to stay ahead of claims inflation."

Whitt said he now believes the favourable market conditions will continue through the second half of the year and in 2023. "But we have entered without a question, a more nuanced phase of the current market cycle," he said.

This nuance means that pricing in some lines may moderate while others accelerate.

WR Berkley president and CEO Rob Berkley said that he saw nothing in pricing trends that will derail the opportunity to grow the business, especially in specialty and E&S.

"We need to remember that product lines are not marching in lockstep these days," he said. "So for example, it is our view that over the next 12 to 24 months, you are going to see the workers' comp market likely bottoming out and beginning to firm. That's one of the, if not the largest, components of the commercial lines marketplace."

Berkley said that property cat is one of the product lines that is getting the most robust amount of rate, adding that it has been most underpriced for an extended period of time.

> "We've already seen some lines reaccelerating in light of new data and conditions, and I believe that this reflects the discipline we expect to see in this market"
>
> **Albert Benchimol, president and CEO at Axis Capital**

On the Axis call, Benchimol had commented that his company feels "the vast majority of lines are adequately priced at this moment".

"However, we also know that our industry is experiencing an all-in loss trend in the high single digits when all factors are considered," he said.

The executive noted the uncertain environment resulting from economic instability, the Russia-Ukraine war and lingering impacts of Covid-19 and social inflation.

"It's therefore imperative that our industry keeps pricing in line with these loss trends to protect our margin," Benchimol said. "On the positive side, our industry has a comforting historical record of adjusting to inflation and pricing to reflect those loss cost trends. For these reasons, we expect that, on average, our industry should sustain pricing at above loss cost trends through 2023."

He added: "We've already seen some lines reaccelerating in light of new data and conditions, and I believe that this reflects the discipline we expect to see in this market."

Broker and other feedback on US commercial pricing

	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022
CIAB	9.3%	10.8%	11.7%	10.7%	10.0%	8.3%	8.9%	8.7%	6.6%	7.1%
MarketScout Market Barometer	5.0%	4.8%	6.3%	7.1%	7.0%	5.9%	6.8%	5.8%	6.0%	5.9%
Marsh US composite insurance pricing change	14%	18%	18%	17%	14%	12%	14%	14%	12%	10%
Willis Towers Watson CLIPS Survey	Over 6%	Just below 10%	Just below 10%	Above 10%	Just below 8%	Just below 8%	Just above 7%	Just above 7%	6%	NA

Source: *The Insurer*

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Two become one: The convergence of insurtech and the industry

PART TWO

In the second part of his examination into the crossover between traditional insurance and tech innovation, Jonathan Spry, CEO and co-founder of Envelop Risk, explores how insurers and innovators can work in harmony...

To date, start-ups have been the catalyst for innovation in the industry. Funded primarily by venture capital, entrepreneurs have sought to offer novel ways to underwrite and deliver insurance products.

Insurtechs have been on a mission not only to improve existing models but also to outcompete insurers with new and inventive products. As the visionary engineer and architect Buckminster Fuller said: "You never change things by fighting the existing reality. To change something, build a new model that makes the existing model obsolete."

Many insurtechs, particularly in the US, are, in fact, seeking to disrupt the traditional insurance ecosystem rather than partner with it. While this model of disruption has proved successful in other industries, the insurance industry has thrown up high barriers to entry via stringent regulation, onerous capital requirements and a close-knit community of insiders.

Given the fact that many insurtechs are reliant on capital from industry incumbents, attempts at wide-scale disruption risk biting the hand that feeds them.

At the same time, insurers need to catch up with digitally advanced competitors. In the main, this has been achieved by acquiring a start-up or attempts at in-house innovation, often using a 'corporate lab' – although success with the latter has been limited by the lack of internal tech expertise.

Meeting of minds

Partnership could be the best path for both parties. One move in that direction is a hybrid innovation strategy, in which an alliance is executed including equity stakes, joint venture innovation labs and the creation of advanced data platforms for analytics, built within the insurer, benefiting from knowledge transfer within the insurtech community.

In such models, a nimble technology company retains ownership of IP and benefits from a huge wealth of data accumulation while it also builds long-standing and trusted partnerships.

The formation of the insurer's data strategy sits neatly alongside the attempts to foster innovation and can be seen as a further driver of productivity.

A robust and transparent data strategy can balance defensive approaches including cyber security with more outward-looking objectives, such as the use of predictive analytics.

Within the world of underwriting, insurtechs are already playing a role in the evolution of specialty insurance in Lloyd's and the London market, with AI-driven algorithms now being used to select business and provide an index-based ability to passively underwrite.

Elsewhere insurtechs are using AI to pick the best business and actively beat the index, generating 'alpha'. The use of AI is already accelerating a division between leaders and followers in specialty insurance, which will have a profound effect on the allocation and cost of risk capital and on insurance enterprises' earnings.

Each class of business will inevitably concentrate on a smaller group of true leaders, with followers competing using lower expense bases and diversified capital, perhaps relying on earnings from comparative leadership positions elsewhere. Reinsurance can play more than a supporting role in the transformation of the industry, supplying not just capital but also expertise and technology-enabled products as the catalyst for innovation.

Value added?

A convergence between venture-backed technologists and publicly listed insurers is possible, but what does that mean for the thorny issue of valuations?

My view is that premium valuations are achievable and sustainable if matched by earnings momentum and clear ownership over strategic territory, particularly when allied with a deep understanding of the client and the ability to use data to better price and manage risk.

A spectrum of valuations is still likely. Strictly regulated and balance sheet-heavy insurers may benefit from improved metrics if they reduce footprint and distribution costs, but that's unlikely to receive a premium technology rating.

On the other hand, an insurtech that can demonstrate profitable underwriting growth and durability in its capacity, including some dedicated risk capital, should be able to retain premium valuation as its IP is monetised and earnings grow.

The jury on convergence may still be out, but as pioneering author William Gibson once said: "The future is already here. It's just not evenly distributed yet."

Dire straits for flow of trade through Malacca

Russell Group's Suki Basi highlights the importance of connected decision making

As a video on China's catastrophic oil and gas problem explains, Beijing, Vietnam, the Philippines, Malaysia, Brunei and Washington are all directly at odds with each other over the Strait of Malacca because of the importance of this major geopolitical thoroughfare.

China has constructed new islands within the South China Sea, defended by naval and air bases replete with the latest firepower, while the US has continued its own naval and air patrols despite dire Chinese warnings.

China's increasingly bellicose rhetoric is underpinned by Beijing's concerns over what it sees as its main geopolitical chokepoint challenge. The strait stretches one and a half miles wide. It is China's equivalent to the Death Star's exhaust port – the strategic gate between the Pacific and Indian Oceans between the Malay Peninsula in the north and the Indonesian island of Sumatra in the south. This shipping chokepoint is geographically the shortest possible path for container and cargo vessels to take while travelling between Europe, the Middle East and Africa on one side and East Asia on the other.

According to the report, $3.5trn worth of global trade passes through these gates and across the South China Sea every single year, including two thirds of China's entire maritime trade volume, 40 percent of nearby Japan's entire maritime trade and nearly one third of the total volume of all worldwide trade. These flows of trade usually also include around 15 million barrels of oil a day and around one third of all the world's traded liquefied natural gas to China and Japan.

Each relies on this single straight for 80 percent of all their imports of oil, primarily coming in from Iran and the Arab states. The imports are critical for China as imported oil from abroad makes up 75 percent of its entire oil consumption, which ultimately means that roughly 60 percent of China's entire supply of oil passes through this one and a half mile wide stretch.

China is heavily reliant on this chokepoint not only because of the energy resources imported through it, but also because of the massive volumes of manufactured goods that it exports through it. If the Strait of Malacca were to somehow become obstructed or blocked for a significant amount of time, China's entire economy and society would come under significant strain with huge implications for global geopolitics, the economy and trade credit.

> "If the Strait of Malacca were to somehow become obstructed or blocked for a significant amount of time, China's entire economy and society would come under significant strain with huge implications for global geopolitics, the economy and trade credit"

Covid-19 and Ukraine as well as other global trade scenarios such as the Strait of Malacca illustrate that the industry lacks the detailed knowledge to react in a timely fashion. More forward-thinking and connected decision-making is required. Russell's conversations with its Corporate Working Group have therefore focused on devising the mechanics of a resilience solution which is outcome-based and triggered by predefined events.

Features of the resilience solution:

- Improves the state of the business
- Quantifies viable outcomes
- Responsive to change
- Connectivity to threat paths
- Scenario-based

Suki Basi, managing director at Russell Group

There has been a contraction in the proportion of exposure insured into the insurance market, forcing corporates to retain more. But as exposure is insured into the insurance value chain, knowledge of the original business is lost. This hampers the ability of the insurance industry to step up as it lacks the detail needed.

We need not just data and analytics, but also the imagination to create the solutions and the market collaboration to deliver them.

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COP27: Actions speak louder than words

Yokahu's Tim McCosh calls on governments to issue a legal mandate to the (re)insurance sector to produce the innovation required for faster, more impactful action on the ground to improve resilience to climate change where it is most needed

All the policy signals ahead of the 27th UN Climate Change Conference, taking place from 7-18 November 2022 in Egypt, point to a lot more hot air from global leaders around accelerating efforts to confront climate change.

But we cannot afford for COP27 to be a talking shop where ideas are bandied around and woolly commitments are made on a grand scale. Let's face it, more hot air is the last thing we need.

This 27th COP must achieve radically different outcomes compared with the 26 conferences that have come before.

There are increasing policy signals that agreements and strategies around insurance and the formation of a Global Shield against Climate Risks community of public, private and humanitarian parties will form a key part of the outputs from COP27.

We agree that addressing climate change should not be about aid post-event anymore. This is well accepted; but moving the needle on what needs to be done to ensure the private sector is involved in supporting vulnerable communities before a catastrophic event has thus far been elusive.

Are climate risks uninsurable?

Many climate-related risks such as droughts and hurricanes hitting poor communities are too often considered uninsurable by the private sector. And many of the most vulnerable people who are impacted by climate change do not have access to traditional banking and insurance services.

There is a very immediate need for liquidity straight after an event – a need faced by individuals who may have lost their homes, businesses that have been damaged and governments that face massive damage to infrastructure.

Food security is a critical case in point. With efficiencies through technology here the supply chain can insure the farmers as well as their balance sheets with the right products, which offer faster payouts than traditional insurance to allow for more resilience and faster recovery in the event of a catastrophe.

But the truth is that from the government side, it is unlikely that policymakers on their own will produce the innovation that is so badly needed.

The availability of affordable, transparent insurance for climate-vulnerable communities could be instantly accelerated with the right action from governments.

This would also benefit insurers' own ESG goals, particularly those initiatives aimed at poor populations that have been excluded from the traditional insurance market.

Innovation, innovation, innovation

Parametric insurance offers much-needed efficiency, speed, trust and resilience that is simply not available on the traditional market. Parametric premiums are also relatively low, and have lower transaction costs than traditional insurance, offering 100 percent reserving transparency for insurers and 100 percent claims transparency for policyholders.

Taking this approach to disaster insurance helps to improve resilience and creates a pool of liquidity made immediately available when a catastrophe occurs.

Parametric schemes have already been launched at national level in some countries, aimed specifically at tackling climate change. This is excellent progress and we look forward to seeing such schemes expanded.

The potential to scale parametric insurance is immense – we have the technology available right now to apply the automatic triggers to other areas including crop insurance, for instance, which in turn could help improve global food security and resilience to systemic shocks.

We firmly believe that the parametric approach offers the simplicity and efficiency required to help close the climate protection gap and make our world more resilient to climate change.

Parametric insurance must be recognised widely as one of the most critical tools in the climate resilience toolbox, and we will be watching closely as the COP27 conversation develops.

Meanwhile, we will continue to take action on the ground, where we know we can make an immediate difference right now.

Tim McCosh is CEO of Yokahu, a parametric insurtech start-up currently rolling out its hurricane insurance emergency expenses product in the Caribbean

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